

State Responsibility for Regulation to Enhance Small Business Development

Djumadi^{a*}, Abdul Halim Barkatullah^b, ^{a,b}Faculty of Law, Universitas Lambung Mangkurat, Jl. H. Hasan Basry, Banjarmasin 70124 South Kalimantan, Indonesia, Email: ^{a*}dr.djumadi.sh@gmail.com

Micro, small, and medium enterprises (MSMEs) play a significant role in economic growth and development in Indonesia as well as in other countries globally. Indonesia strives to be a welfare state that promotes public-private partnership and efficacy of MSMEs. A country implementing a welfare state system must implement policies oriented towards service, charity, protection and prevention. The objective of this study is to determine the role of the state in implementing regulation that enhances MSME welfare and to analyse the implementation of economic democracy using partnership patterns. The researcher conducted an analysis of the secondary literature and a library search focusing on open sources such as books, peer-reviewed journal articles and newspaper articles. The state usually plays a critical role in welfare achievement by enacting laws that create an operating environment and legal framework conducive to MSMEs, thus leading to the creation of a thriving economy. The proposed Partnership Pattern Program would foster partnerships between MSMEs and large multinational corporations (MNCs). It is also a middle-ground solution between the state's obligations to provide welfare to the general public, the MSME sector and economic/trade liberalisation from the global market.

Key words: *Welfare state, Small business, Regulation, Partnership patterns.*

Introduction

Micro or small businesses play a significant role in the Indonesian economy (Prameswari, Suharto & Afatara, 2017). Consequently, small businesses are strategically important for achieving the objectives of national development – particularly economic development. The roles and functions of small enterprises affect people's economic activities (Sumarto, 2017). Some functions of small businesses include supplying goods and services, creating

employment, facilitating the equal distribution of value-added products and contributing to the improvement of people's living standards (Prameswari et al., 2017). Apart from being a significant driver of national economic development, small businesses also play a role in promoting national stability.

Indonesian people value the contribution of micro-businesses or small businesses. Therefore, the government has focused on developing policies that support economic democracy as well as the micro and small enterprise sector to ensure its full development and competitiveness and to allow it to be an integral component of national development (Gough, 2017). The government must be able to develop micro and small enterprises, which ultimately drive Indonesian economic growth (Dalle & Hastuti, 2017). The government has succeeded in introducing numerous laws, regulations and policies that support small businesses. It has also made significant budgetary allocations to ensure that small businesses have access to funding and can build their operational capacity. Nonetheless, the inefficiencies in the public sector – namely weak institutions and inexperienced civil servants – have derailed the small business development strategy.

Notably, global poverty reduction and socio-economic development are achieved when economies post strong performance and demonstrate sustainable and equitably distributed growth trajectories. Scholarly evaluations show that trade and investment, the implementation of prudent fiscal and monetary policies, transparent and accountable budgetary expenditures, as well as the creation of an institutional environment that respects the rule of law greatly stimulate economic growth and welfare (Pad, Eraydin & Fingleton, 2017). The international development agenda targets industries such as service (trade), manufacturing and agriculture, given their strategic importance in many developing countries (Walliman, 2017). Economists and government planners/policy-makers have touted micro-enterprises as indispensable drivers of economic growth and development, given their reach and coverage in the country (Anas, Mangunsong & Panjaitan, 2017).

Small businesses contribute to the generation of more export and domestic earnings in developing, transitional and OECD countries (Hadiyati, 2015). Therefore, governments worldwide are focusing on enhancing the competitiveness and capacity of such businesses to capitalise on expanding global, regional and domestic trade opportunities. There is also considerable focus on creating linkages between small businesses and investors to enhance foreign direct investment (FDI) (Adam & Lestari, 2017). Furthermore, stakeholders seek to ensure the integration of the small business development strategy into the Indonesian national framework to deal with perennial challenges facing the sector, such as access to finance; unskilled human resources; poor infrastructure development; lack of efficient institutional support; and an obstructive administrative, regulatory and legal operating environment (Kwon, 2016). Introducing targeted policies such as special tax treatment, subsidised credit, grants, capacity building and favourable legislation or policies will enhance the ability of small businesses to contribute to GDP growth and employment creation.

The aims of this research are, first, to define the role of the state in ensuring the welfare of micro or small enterprises; and second, to analyse whether the implementation of economic democracy using the Partnership Program enhances the welfare of micro and small enterprises in Indonesia.

Method

The research adopted the normative research method to describe the context and main points regarding MSME law in Indonesia. The focus is on administrative provisions and general laws. This technique has an evident link to the legal certainty principle, which refers to the situation in which the rule of law is valued and defended in a state, allowing individuals to act in good faith and support social harmony (Baharuddin & Dalle, 2017). Normative research involves researching legal principles and comparing historical precedents to derive their meaning and understand their contribution to social coherence. Consequently, this research focuses on evaluating secondary data from different data libraries or related institutions. It considers secondary data in the form of primary, secondary and tertiary law material (Titmuss, 2018). It is evident that the state is responsible for ensuring regulation that enables the development of economic democracy for MSMEs using partnership patterns.

Diverse secondary data obtained from primary, secondary and tertiary law material were used to investigate the research topic. The primary data included the 1945 Constitutional Amendment (IV), Civil Law Code, Trade Law Code and Law No. 7 (1992), which was amended to Law No. 10 of 1998 about Banking. Other pieces of legislation include Law No. 25 (2004) regarding the National Development Preparation System; Law No. 17 (2007) regarding Long Term Development Preparation 2005–2025; and Law No. 20 (2008) regarding Micro, Small, and Medium Enterprises. Finally, the research considered different regulations, such as the Regulation of the Minister of Finance No. 135 (2008) regarding the Individual Business Credit Guarantee Facility (*Fasilitas Penjaminan Kredit Usaha Rakyat*), Regulation of the Minister of Finance No. 189/PMK.05/2010 and Regulation of the Minister of Finance No. 135/PMK.05/2008. The researcher comprehensively analysed the collected data to make an inference. As indicated, the method used in this research is normative as the study focuses on reviewing existing laws and regulations. Furthermore, deductive reasoning was also relied upon to reach a logical and valid conclusion. Lastly, the study results are presented as explanations and descriptions (Walliman, 2017).

Results

The Urgency of State Intervention to Provide Regulation and Welfare to Micro and Small Businesses

One of the major roles of the state is to develop the people's welfare state. The welfare state is an administrative system in which the government is responsible for people's welfare (Riwayati, 2017a). A democratic government usually runs a welfare state as it aims to improve the social and economic welfare of citizens (Riwayati, 2017a). In Indonesia, state policy seeks to alleviate people's suffering, and in particular reduce the high levels of poverty and unemployment (Sumarto, 2017). This is different from a welfare society in which individuals use their own initiative to improve their welfare through non-governmental social institutions (Riwayati, 2017b). The state has a significant role and responsibility to meet basic social needs and redistribute economic resources to citizens in an equitable manner, irrespective of their socio-economic status (Kurniawan, 2018).

As part of its public policy, the welfare state concentrates on ensuring that the government's activities are oriented to service, charity, protection and prevention when addressing major social problems. A welfare state usually allocates significant funds to social programs such as health, education, welfare and public housing (Sumarto, 2017). Additionally, the welfare state is a form of social policy whereby the government's efforts are oriented towards increasing people's standards of living (Hanna & Olken, 2018). The government usually takes an active role in managing and organising the economy to guarantee the availability of basic welfare services, especially to under-privileged people (Hicks, 2018).

In general, the four main pillars that characterise a welfare state include social citizenship, full democracy, a modern industrial system, and citizens' right to education, with the last of these implying the provision of a modern mass-education system (Prabawani & Hidayat, 2017). The four pillars entail the adoption and implementation of social policies that aim to improve citizens' living conditions without considering their political, economic and social class (Hicks, 2018). Additionally, an objective of the welfare state is to minimise the state's involvement in people's social lives to guarantee fundamental freedoms and basic rights (UNESCO, 2019). The concept of the welfare state also promotes constitutional democracy, in which the government's focus is on executing state functions with few or no restrictions imposed on people and organisations (Amengual & Chirot, 2016).

The 1945 Indonesian Constitution (both before and after amendment) commits to achieving a welfare state in accordance with the aspirations of the nation's forefathers. The fourth paragraph of the Indonesian 1945 Constitution Preamble stresses the commitment to establishing a welfare state (UNESCO, 2019). The constitution is explicit that the state has a legal and moral duty to promote the welfare of the Indonesian people. Furthermore, Article 27 of the 1945 Constitution states that every citizen has the right to work and have a good life to enhance their human dignity. Besides, Article 34 states that the government is responsible for maintaining and taking care of the poor and neglected people, especially the sick, disabled and children, among other vulnerable groups (UNESCO, 2019).

Article 33 Paragraph (4) of the Constitution stipulates that the national economy is founded on the principles of democracy, aimed at promoting togetherness, fairness efficiency, continuity, autonomy and improvement in the national economy (UNESCO, 2019). In addition, this constitutional provision seeks to promote elements such as fairness and efficiency, which are important for streamlining activities in the marketplace in any economy (Lee & Qian, 2017). In addition, the constitution articulates the need to promote and sustain the significance of justice and continuity in the economy (Widyastuti et al., 2017). Consequently, the government has a responsibility to ensure justice and peace to enable people and organisations to prosper. The state must not favour any social, political or economic class or group, but rather strive to meet the needs of all citizens to ensure they succeed equitably. Article 34 Paragraphs (1) and (2) of the Indonesian Constitution states the need for the state to develop a social security system for everybody as well as empowering the under-privileged people in society to promote their human dignity (UNESCO, 2019). Such constitutional provisions are immensely significant, as they help to make economic democracy a reality by assisting unfortunate groups to prosper and suppressing economic inequality, such as between the rich and the poor (UNESCO, 2019). Furthermore, Article 34

Paragraph (3) stipulates that the state is duty bound to offer universal health-care and public service facilities. This must be interpreted alongside Article 28H Paragraph (1), which states that every person must enjoy the right to life and appropriate welfare to ensure they lead a comfortable life in a safe and healthy environment (UNESCO, 2019). The two articles stress the fact that the government is responsible for, and has an obligation to provide, quality and universal health care to the citizens. The private sector cannot implement these responsibilities and obligations since its role is only to complement the government's efforts (Lee & Qian, 2017).

The state has four functions in an economic system according to the welfare state concept:

- the state as a *provider*
- the state as a *regulator*
- the state as an *entrepreneur*
- the state as an *umpire* (Friedmann, 1975).

The state is a major provider of services; therefore, it is required to ensure that citizens have access to social services to improve their living standards and strengthen their economic power (Friedmann, 1975). As a regulator, the state must channel a considerable amount of investment into industrial development to achieve trade balance by optimising export and import levels (Friedmann, 1975). The government sets and controls the tax rate as well as the trade activities in the economy (Lee & Qian, 2017). It protects the economic rights of citizens, including guaranteeing equal opportunities to citizens by allowing them to participate in economic activities, which ultimately enable them to increase their living standards, quality of life and level of dignity. Economic freedom and prosperity, as protected by the Constitution, allow people to lead decent lives and contribute towards the development and growth of the country (Gough, 2017). The regulation function also involves legislation that is devoted specifically to spurring economic development.

One of the national objectives of the formation of the Republic of Indonesia, as mentioned in the preamble to the country's Constitution, is to create a just and prosperous society and help people achieve high levels of success, growth and development in all aspects of their lives. The Pancasila and the Constitution act as the basic guide for facilitating national development. Both the people and state work for national development. The citizens usually act as the main agent of development, whereas the state is responsible for providing guidance as well as creating micro- and macro-economic conditions that support development (Aspalter, 2017). The intertwined activities implemented by the government and the communities show how the two entities support and complement one another. They create synergy and unity of purpose, which are necessary for enhancing national development.

The law is the most significant medium used by the state or government to stimulate and guide national development. Laws are mostly relied on to enhance certainty in the economy, as well as to ensure that people display the right behavior and do not engage in criminal activities (Yuda, 2018). In this case, 'community renewal means' and 'development means' are two critical principles that promote correct conduct or practices to encourage development (Hamayotsu, 2015). These principles seek to ensure that the law (principles or

legal regulation) being enforced by the government acts as a prudent tool or medium that can spur political, economic and social development (Smith, 2017). Therefore, as an umpire, the state seeks to control people's activities in a manner that leads to prosperity and the achievement of social order. Law is conservative in nature, which means that it keeps and takes care of what has been achieved (Huda, Mardiyanta & Setijaningrum, 2018).

The Concept of the Economic Democracy System as a Means to Increase the Prosperity of Micro and Small Businesses in Indonesia

The basic principles of economic democracy, such as justice and efficiency, play an important role in promoting national development (Schwarz, 2018). Awang (2017) defines economic democracy as a national economic system based on the principle of production by for all. In addition, people usually own and control the factors of production to guarantee their control of the economic cycle. It can also refer to an economic management system largely based on certain democratic principles to ensure that economic actions lead to greater prosperity for the people (Breuer, Guajardo & Kinda, 2018). Article 20 of the Constitution of the Republic of Indonesia provides a basis for the passing of the MSME laws, which aim to create a climate conducive to the entrepreneurial success of small businesses. This law also provides opportunities for creating employment as well as supporting, protecting and strengthening business development (Han, Xiang & Yang, 2018). Furthermore, the MSME laws seek to increase the position, role, and business potential of MSMEs in creating economic growth, distributing income evenly, creating employment and reducing the level of poverty (Marta, Kusumawardani & Irwansyah, 2018). Indonesia is implementing numerous laws, especially through the Ministry of Co-operatives, to streamline the industry and maximise the competitiveness of small and micro-businesses. Apart from MSME laws, other legislation regarding consumer protection, taxation, commercial and contract law, the minimum wage, work safety, intellectual property, accountancy, bankruptcy, environmental law, anti-trust law, credit, stock exchange, insurance and so on continue to be enforced (Donkor, Donkor & Kwarteng, 2018). The laws seek to create a favourable and sound operating environment for all stakeholders, as well as to protect small businesses against threats posed by free trade agreements ratified by Indonesia. Nonetheless, such laws favour multinational companies as opposed to local small businesses, which form the backbone of the Indonesian economy (Miranda & Miranda, 2018). Therefore, improving the efficiency and productivity of small businesses through legislation will provide an enabling administrative, legal and regulatory environment, as well as granting small businesses access to lucrative opportunities to compete in the export market.

The finance laws require an amendment to ensure that small businesses can easily access government funding as well as incentives such as tax reductions and collateral waivers, which will enhance the ability of small businesses to secure credit from a bank (Ringen, 2017). Furthermore, the government needs to adopt best practices and global legal frameworks that facilitate Indonesia's economic integration with the world, foreign investment flows and international trade. Additionally, the laws can help to reduce trade barriers and streamline the operations of multinational corporations (MNCs) to encourage competition in the local and international marketplace (Miranda & Miranda, 2018).

Additionally, MSME Law No. 9 (1995), commonly known as the Small Business Law, seeks to ensure that the needs of small business agents are considered and satisfied within the economic process. MSME Law No. 20 (1998) aims to protect the business agents and ensure they enjoy just and fair treatment while conducting their business (Adam & Lestari, 2017). Furthermore, MSME laws seek to describe the profile of the agents and their roles in the economy (Adam & Lestari, 2017). The laws also classify the kinds of business and regulate the macro- and micro-economic factors involved in creating a favorable operating environment that can spur the growth of Indonesian enterprises (Tambunan, 2018). For instance, the law stipulates the minimum standards of practice related to budgeting, infrastructure, business information, partnership, business licensing, business opportunity, trade promotion and institutional support.

Small businesses are the focus of the government, which is evident from its commitment to empower them and ensure they develop optimally, as the sector is highly valued and considered sustainable compared with other mainstream industries in the economy, which are very volatile and susceptible to crises (Cahayani, 2017). The sector can absorb a huge workforce, as small businesses are typically labour intensive. In 1997, Indonesia achieved a 1 per cent growth rate in the economy, and more than 400,000 people secured employment in small businesses (Cahayani, 2017). During the 1997 Asian economic crisis, several large-scale businesses suffered major downturns, with some of them facing bankruptcy, liquidation or suspending production. However, small businesses demonstrated greater flexibility and resilience.

Micro- and small businesses in Indonesia survived during the economic crisis for several reasons:

1. Some small businesses produce consumer goods, particularly non-durable goods.
2. Most small businesses depend more on *non-bank financing* for their business finance.
3. Generally, small businesses undertake product specialisation, which means the products are customised to meet demand.

Indonesian small businesses also face problems such as a lack of capital, weak networking, limited capabilities of human resources, poor infrastructure, free-trade barriers and an unfavourable business climate. Furthermore, classic problems such as limited market access, poor product development, government bureaucracy or formalities, and securing patents have affected the ability of small businesses to satisfy market needs and explore the export market. Other intermediate issues include a lack of entrepreneurial spirit, collateral challenges and managerial deficiencies (Soekamti, 2017). These problems affect their ability to expand into the domestic and international market as well as proactively upgrade their processes and products (Adam & Lestari, 2017). Furthermore, small businesses have failed to obtain information about new technologies and consumer demand, to secure certification and accreditation (quality assurance), to access a pool of skilled workers or to invest in advisory and training services with the goal of upgrading their management practices.

Growing globalisation has led to trade liberalisation characterised by quantitative restrictions, new technical barriers and varied tariffs, which affect enterprises disproportionately (Jasuni, Firdaus & Sanim, 2018). Additionally, most small businesses operating in the agribusiness

sector are affected by stringent trade practices that require ISO9000/ISO14000 certification and adoption of new technologies, which ultimately impact their operational readiness, competitiveness, risk management and product development. Small businesses fail to capitalise on cost advantages such as lower wages, functional flexibility and dealing with supply-side bottlenecks in the investment and trade sector (Jasuni et al., 2018). These challenges have direct implications for Indonesia's economic performance as enterprises are constrained by non-competitive real exchange rates and cheap imports (Jasuni et al., 2018).

Small businesses enjoy state protection through regulations, consistent with Paragraph 20 of the Constitution. Further, in 2008 the parliament passed numerous laws targeting small businesses to create a framework that guided their formation and the development of non-corporate enterprises in Indonesia. Nonetheless, without the necessary support structure, the laws have failed to facilitate the growth of small businesses (Tambunan, 2019). The government and private sector stakeholders have demonstrated a relative commitment to ensuring that small businesses contribute to and strive towards economic growth. In addition, the prohibitive bottlenecks or bureaucracy and difficulties accessing capital from banks have hampered the development of MSMEs (Adam & Lestari, 2017). Paragraph 2 of the MSME laws states that small businesses are empowered through family and economic democracy principles. In fact, Article 1 stresses the importance of economic development, implementation of the kinship principle and stimulation of national economic growth (UNESCO, 2019). Mass education has helped to create awareness of government policies concerning small businesses with the aim of improving the living standards of the common people. In addition to the goals of economic growth and stability, the government also strives to achieve autonomy of the national economy from foreign aid as well as to attain prudent financial development.

The empowerment of citizens and support for small businesses contribute directly to improving the nation's quality of life and to enabling most Indonesian people to achieve prosperity and higher living standards (Mukhlis & Simanjuntak, 2016). The MSME sector's potential and strategic role has also strengthened the growth of the national economy immensely (Margaretha & Supartika, 2016). The dominant existence of cooperatives and small businesses as the agent of the national economy is also vital to expand business opportunities, absorb labour and reduce unemployment. In line with this idea, the development of cooperatives and small businesses will probably change the structure of national economic agents in a strong and autonomous manner (Margaretha & Supartika, 2016). The small businesses have proven to be autonomous, strong and flexible business agents in normal conditions, as well as during times of crisis.

In the era of globalisation, small businesses experience stiff competition and numerous operational challenges, which come not only from large businesses in the country, but also from foreign businesses such as MNCs that are affecting industries such as manufacturing, services and agriculture, which are the backbone of Indonesia's economy (Margaretha & Supartika, 2016). In the framework of the World Trade Organization in the globalization era, the challenge to this sector has become more significant. Specific problems that small businesses have experienced in the process of entering the global market relate to the principles of national treatment, general elimination of quantitative restriction and reciprocity, and intellectual propriety rights (Mercurio, 2017).

Each year, assessment of the level of development attributed to the small businesses is based on their contribution to the gross domestic product (GDP), labour absorption, trade balance (imports and exports), access to capital and continued investment in the sector (Tambunan, 2017). All these macroeconomic indicators are key reference factors while formulating the policy related to MSMEs to empower them and serve as a basis for subsequent assessment of their performance (Cotterrell, 2016). In addition, the government reviews the policy to grow MSMEs on an annual basis, since it is not entirely definitive. There is still unfair competition between small businesses and larger enterprises, particularly the multinational companies, operating in Indonesia (Tambunan, 2017). Another problem faced by small businesses is obtaining approvals such as licences. There are many steps to follow, and the process is costly and time-consuming. This is related to the government's economic policy, which is considered responsive and insensitive towards small businesses, but accommodative of the interests of big businesses.

Additionally, small businesses adopt both agriculture and commercial-based business models dealing with consumer goods, so they have tended to thrive in both rural and urban areas (Tambunan, 2017). The problems affecting small businesses operating in the agricultural, retail, service and manufacturing sectors are usually categorized as access to capital, time and finance management, and acquisition of licences. Other issues include hiring skilled workers, developing products and accessing the market (Suryanto & Muhyi, 2017). Moreover, the problems of more advanced MSMEs include penetrating the export market, understanding the design of products suited for the market, legal problems relating to patents, problems with sales contracts and regulations in the countries to which goods are exported (Indris & Primiana, 2015). By understanding these problems, it is easier to detect the issues that bedevil small businesses so that solutions can be unique and problems can be remedied independently (Setiawan, Indiatuti & Destevanie, 2015).

In addition to the advanced problems, basic problems will continue to affect the development of small businesses in Indonesia (Agus et al., 2015). The MSME laws need to encourage implementation of equitable, accountable and transparent policies, as well as to strengthen the entrepreneurial spirit, unity and independence of the organisations to improve their resilience and competitiveness (Sato, 2015). Furthermore, enterprises must prioritise the adoption of integrated planning, execution and control of management practices that allow them to contribute to the achievement of a balanced structure of the national economy, economic growth, poverty alleviation, job creation and income generation. Suryanto and Muhyi (2017) conducted research on the profiles of micro and small enterprises, funded by the Indonesia Bank whereby they concluded that several problems and constraints apply to MSMEs from the banking point of view. Namely, the majority of small businesses have a low capacity for financial management, marketing, labour skills and quality control in production.

Suryanto and Muhyi (2017) argue that the development of human resources – both vocational and professional – is critical for the growth of MSMEs. Dealing with these factors helps to enhance the competitiveness of the enterprises, despite continued globalisation and trade liberalisation. Investing in training and education, and eliminating burdensome regulations, can enhance the economic development of MSMEs. The challenges can also be addressed by providing proactive support to enterprises to allow them access to the most attractive, fast-

growing Indonesian domestic and foreign marketplaces. Strengthening public–private dialogue will enable small businesses to access sources of funding and build their operational capacity (Junaenah, 2015). Importantly, small businesses need to exploit numerous opportunities for networking to deliver services that can boost their reputation and income.

Furthermore, public–private partnership will lead to increased investment in small businesses, especially in such areas as markets and new technologies, implementation of improved regulation, ease of access to finance and support for enterprises’ working capital. Globalising MSMEs to enable them to explore foreign markets has a positive reciprocal effect on the domestic economy (Van Klinken & Barker, 2018). Overcoming such barriers is vital. There is therefore a need to adopt cross-cutting strategies such as implementation of prudent macroeconomic policies, good governance, simplified regulatory and legal frameworks, access to a skilled workforce and capital funding, as well as effective private and public institutions. In the Indonesian national economy, small businesses are strategically important, and their contribution to the economy and competitiveness is significant. It is important to concentrate on empowering small businesses, and the government must focus on providing guidance on the development of the industry to enable disadvantaged businesses to compete effectively.

Furthermore, Paragraph 17 of the MSME Law (2008) can help to facilitate the production processes adopted by small businesses, especially by improving their production techniques and management capability. The law also focuses on enhancing infrastructure, manufacturing of basic commodities, augmenting packaging and pushing for ISO standardisation and accreditation, as well as establishing professional management practices (Hussain, Farooq, & Akhtar, 2012). Therefore, there is a need for a paradigm shift in how small businesses approach the production process, especially through the adoption of information, communication and material technologies. The government and other donors must increase the number of subsidies and the level of technical assistance to promote entrepreneurship and the introduction of technology-oriented services and manufacturing in MSMEs (Moeliodihardjo et al., 2012). Additionally, the focus on improving technology can foster the competitiveness of small businesses.

Based on Paragraph 18 of the MSME Law (2008), the development of micro-businesses must focus on marketing to increase their competitiveness. Stakeholders must conduct regular research and marketing studies in addition to spreading market information, increasing management capability and marketing techniques, and providing the required infrastructure. Achieving this requires involving marketing institutions, trade and promotion centres, marketing promotion networks of products, marketing and distribution institutions, and professional marketing consultants (Mourougane, 2012). In Paragraph 19 of the MSME Law (2008), the development of labour is possible through such means as socialising and developing businesses, increasing technical and management skills, and forming and promoting education and training.

The last government regulation regarding the development of micro and small enterprises, as stated in Paragraph 20 of MSME Law (2008) in designing and technology considers:

- increasing the level of design in the field of technology and quality control
- developing partnership and technological transfer
- developing the capability to conduct research to develop new designs and technologies
- providing an incentive to those developing technologies and preserving life-cycles
- encouraging businesses to obtain the Certificate of Intellectual Wealth Rights.

Discussion

In Indonesia, as well as other countries, small businesses have proved to be prominent drivers of economic growth and development. Nonetheless, they continue to grapple with dwindling market share and profitability as competition continues to intensify. Adoption of technology has helped them to improve their internal processes, introduce new distribution channels, enhance product improvement and modify their pricing strategy to remain competitive, as the market becomes more globalised (Setyorini, Pinasti & Rokhayati, 2013). Rapid technological development and customers' growing demands require small businesses to improve their commitment and demonstrate their readiness to implement information technology. The fast-evolving operational landscape that is characterised by new technologies such as robotics, big data, the Internet of Things, machine learning, artificial intelligence (AI), blockchain technology and increasing automation of repetitive processes or tasks will continue to shape the operations and competitiveness levels of small businesses.

Additionally, by developing an interactive website and capitalising on social media platforms, small businesses would be able to create an e-commerce platform that would allow the enterprises to reach a significant number of potential online buyers, who prefer convenience as a new shopping trend (Setyorini, Pinasti & Rokhayati, 2013). Improving levels of support from both in-house and online sources have made it more attractive for micro- or small businesses to adopt these technologies. Furthermore, since the administrative, regulatory and legal frameworks in Indonesia are generally business friendly, they play a major role in supporting intellectual property rights with the aim of promoting technological innovations and remote operations through the internet to increase market coverage, which has benefited small businesses.

Alongside the MSME laws, development and guidance are also provided by Government Regulation No 32 1998 about the Building and Development of Small Business. As stated in Article I no. (2), the government should encourage businesses and the community to grow, to enable the small enterprise to become strong and independent and to develop into a medium-sized business. To guide and develop a micro- or small enterprise, the government, businesses and ordinary people must collaborate to achieve the goals and objectives. Numerous initiatives or programs that the government implements seek to strengthen small business competitiveness to enhance effectiveness and efficiency through technology, and encourage investment and prudent use of limited resources (Titmuss, 2018). Additionally, the introduction of new regulations and a broad policy agenda that supports small businesses via investment in the development of infrastructure and facilities such as potable water supply,

waste management, roads, bridges, railways, airports and harbours along the Indonesian coastline has proven beneficial to the economy. Other initiatives can include conducting aggressive marketing and promotion to ensure an increase in sales and profitability as well as investing in training and education to build the capacity of different stakeholders (Thane, 2016). The government can also improve budgetary allocation to ensure MSMEs' access to grants to enable the business to finance their capital investments. The government is implementing measures to enable small businesses to adopt competitive business and operating strategies, encourage conducive micro- and macro-economic business environments, and build the capacity of stakeholders to stimulate economic growth (Robson, 2018). The success of these enterprises largely depends on their ability to access finance, avoid corruption and bureaucracy, and adopt a sound regulatory and legal framework that allows them to be competitive (Adam & Lestari, 2017).

The Partnership Program is a critical solution that requires implementation to empower the small businesses. This program is expected to develop the capability of MSMEs and to be available for the long term. It is not an aid program; rather, it supports small businesses by giving them soft loans so they can solve their problems by themselves (Adam & Lestari, 2017). As for the Partnership Program, the government, through the Ministries of Trade, Finance, Cooperative Development and Interior Affairs, has formulated strategies and policies on export, trade, and investment, MSMEs and private-sector development. Nonetheless, the execution of such essential national policies and programs has been ineffective because of the inefficiency of public sector institutions (Adam & Lestari, 2017). Therefore, the government supports the public-private sector partnership to ensure the success of MSMEs. Members of academia, civil society, entrepreneurs, MSMEs and government representatives consistently engage in evaluating and prioritising the problems facing the industry.

Moreover, the partnership facilitates capacity-building, strengthens entrepreneurial support structures and infrastructure, and improves access to finance, as well as enhancing administrative, legal and regulatory practices and frameworks. The ongoing consultations will also support the multi-stakeholder efforts regarding the adoption and implementation of strategies that support MSME competitiveness (Miranda & Miranda, 2018). The highest level of government (the Presidency) in Indonesia is actively involved in demonstrating the significance of small business development processes. Furthermore, the Partnership Program can assist in enhancing the quality of policy-making, improve the provision of services and create a favourable operating environment. According to Paragraph 26 of the MSME Law, the partnership can also be implemented through subcontracting, Inti-Plasma, franchising, general trade, distribution and agency, among other partnership forms such as profit sharing, operational cooperation, joint ventures and outsourcing (Miranda & Miranda, 2018). However, in practice, the form of partnership in micro-businesses is general trade, whereas in small and medium businesses it is subcontracting. If the perspective of the economic sector is considered, the form of partnership in the majority of industries is subcontracting, although in agriculture it is Inti-Plasma, and in trading it is general trade (Suryanto & Muhyi, 2017).

Conclusions

The state has a major responsibility for ensuring that the basic social needs of citizens are satisfied; this includes facilitating the fair redistribution of economic resources in accordance with the tenets of the welfare state. Public policies must focus on providing equal opportunities to access national resources and wealth, charity and protection for underprivileged citizens. The appropriate medium that allows the achievement of a welfare state is law, including legislation. It is evident that the function of law in national development is to accelerate the realisation of high levels of growth and development of the national economy. Small businesses are recognised as key influencers that can provide a wide range of economic services to the community, as well as facilitate growth and development.

The economic activities conducted by people are an integral part of the MSME sector in Indonesia. The sector's strategic position, potential and role in shaping the national economic structure can help to achieve the balanced distribution of resources to promote economic democracy. Small businesses can help improve the level of income of communities and individuals, reduce unemployment rates and increase the availability of basic products and services. In the era of globalisation and trading in the World Trade Organization framework, the challenges faced by the sector due to competition from large companies are significant. Consequently, the government must prioritise the need to strengthen business development and increase the competitiveness of small businesses. Improving such functional areas as production or manufacturing, service provision, marketing, labour, and product and technological design can greatly help improve the operational capacity of the MSMEs. One of the solutions that can empower small businesses within a welfare state is the implementation of a Partnership Program between MSMEs and large corporations, or MNCs. This program can significantly help micro and small businesses to become more competitive as well as increase their efficiencies and enable them to access to economies of scale. The state – in this case, the government – must formulate policies that create a favourable operating environment with optimal macro- and micro-environment conditions. The policies must aim to reduce unnecessary bureaucracy and regulations, increase access to capital and develop a partnership program between big and micro- or small businesses.

Acknowledgements

I wish to express my exceptional appreciation and gratitude to my advisor for the incredible mentorship and objective supervision. The feedback and advice received throughout the study were critical, which ensured that I improved the manuscript and achieved the stated objectives. Additionally, special regards go to my family members for their prayers, sacrifices, support and encouragement throughout this experience. I also want to thank my colleagues for their invaluable insight and expertise that greatly helped me to fine-tune or streamline my study and making a logical conclusion. Furthermore, the reviewers who assessed the manuscript provided fair and constructive criticism on my initial version of the manuscript. Lastly, I thank my God for giving me the good health, wisdom and intellect that guided me to complete the study.

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