

## **Micro Enterprises Empowerment Policy in Sidenreng Rappang Regency, Indonesia**

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**Abstract:** Micro Enterprises become an integral part of national business, having strategic position, potential and role in achieving national development goals. Given its role in national development, micro enterprises must be developed through the spirit of kinship, mutual understanding, and by strengthening partnerships between micro, small and large enterprises, leading to equity and the realization of prosperity for all Indonesian people. The objective of this study is to investigate the effect of micro enterprises empowerment policy on business performance in Sidenreng Rappang Regency. This study employs quantitative research approach with Partial Least Square (PLS). To measure the variables of this study, questionnaires were used. The results reveal that the policy on micro enterprises empowerment significantly influences the performance of micro enterprises. The implication of this study is that the government should keep the development and implementation of micro enterprises empowerment policy continuous in order to improve the quality of life of and the performance of micro entrepreneurs.

**Keywords:** Government, Policy, Micro Enterprises, Performance

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### **I. INTRODUCTION**

Diabetes is now commonly recognized as a coronary heart disease risk equivalent<sup>1,2,3,4</sup>. This is mainly Development system is a conscious, planned and continuous process of change of which main target is to improve the welfare of the people of Indonesia. In principle, the goal of the development of a country is to realize the welfare of society, the same as the purpose of the establishment of the State of Indonesia. The preamble to the Constitution of the Republic of Indonesia of 1945 states that the goal of the National Development of Indonesia is to protect the whole people of Indonesia and the entire homeland of Indonesia, and in order to advance general prosperity, to develop the nation's intellectual life, and to contribute to the implementation of a world order. To realize these goals, national development is implemented, namely the development of Indonesian people and the community as a whole. In improving the living standards of the community, the government should empower micro, small and medium enterprises (MSMEs) and especially focus on micro enterprises empowerment policy investigated in this study. Micro enterprises strongly support the success of the government in regional development.

Muhadjir in Widodo [1] argues that the policy on micro enterprises empowerment that has been implemented by the government to entrepreneurs engaged in micro enterprises can be seen from the program results based on policy evaluation through a process to see the extent to which a program is successful. If micro entrepreneurs can feel the positive impact of the policy, then the policy can be considered effective.

According to Peter (1985: 45), public policy evaluation is a process to assess the extent to which a public policy can work. There are two concepts in the success of a policy, namely effectiveness and efficiency. Effectiveness is the ratio between output and input, while efficiency is the level of input utilization to produce output through a process [2]. Dunn (2000: 608) explains that the evaluation in the policy leads to value, whether it concerns the product or information on the benefits of policy. Furthermore, Dunn states that one of the policy evaluation criteria is effectiveness, which is the achievement of the desired results in each policy [3]. Achievement of results or benefits of small enterprises empowerment program policy implemented by

Sidenreng Rappang regional government can be seen from business development through the performance of micro entrepreneurs, viewed from business growth, business income and satisfaction of micro entrepreneurs toward small enterprises empowerment program policy that has been implemented by the government.

According John Cross (2000) that street vendors, modernity and postmodernity: conflict and compromise in the global economy explores street vending within the context of the shift from modernism to postmodernism, suggesting that the former implied crackdowns on the trade because of the ideals of public order and control whilst the latter is more open to such methods. Questions whether this new approach brings fresh dilemmas for the informal sector. Proffers the idea that the policy makers should allow deregulated sectors of informality in the economy to function as incubators for new industry [4].

The indicators in this study focus on the policy on micro enterprises empowerment program based on Law Number 20 of 2008. Article 6 of Law Number 20 of 2008 on Micro, Small and Medium Enterprises (MSME) Empowerment Policy explains the following: The criteria of Micro Enterprises include; (a) having a net worth of at most Rp. 50,000,000.00 (fifty million rupiah), excluding land and business premises; or (b) having annual sales of at most Rp 300,000,000.00 (three hundred million rupiah). [5].

According to Saiman, 2015: 9, "net worth" is the difference between asset and liability, excluding land and business premises. The term "annual sales" is the net sales derived from the sales of goods and services within a fiscal year. The nominal value of all the above-mentioned criteria may be amended in accordance with the economic development governed by the Presidential Regulation [6].

## **1. Business Climate Improvement**

Business Climate Program is set forth in Article 7 of Law Number 20 Year 2008 concerning MSMEs that: (1) the central government and regional governments foster business climate by establishing legislation and policies covering several aspects: (a) funding, (b) facilities and infrastructure; (c) business information; (d) partnerships; (e) business licenses; (f) business opportunities; (g) trade promotion; and (h) institutional support, and (2) businesses and communities participate actively in fostering business climate.

In the funding aspect set forth in Article 8, the government is expected to: (a) expand funding sources and facilitate micro, small and medium enterprises to access bank credit and non-bank financial institutions; (b) provide more financial institutions and expand networks so that they can be accessed by micro, small and medium enterprises; (c) facilitate access to funding quickly, accurately and inexpensively with non-discriminatory service delivery in accordance with laws and regulations; and (d) assist micro and small entrepreneurs to obtain financing and services/other financial products provided by banks and non-bank financial institutions, applying either conventional system or sharia system with guarantees provided by the government.

Aspect of facilities and infrastructure is set forth in Article 9 that the need for facilities and infrastructure is very useful in encouraging and developing the growth of micro and small enterprises and providing affordable infrastructure tariffs for micro and small enterprises. For business information aspect as referred to in Article 10, entrepreneurs are expected to; (a) be able to establish and facilitate the utilization of business information databases and networks; (b) establish and disseminate information on markets, sources of financing, commodities, guarantee, design and technology and quality, and (c) guarantee transparency and equal access for all micro, small and medium entrepreneurs to all business information.

Partnerships, as described in Article 11, are indispensable for; (a) realizing partnerships between micro, small and medium enterprises; (b) realizing partnerships between micro, small, medium and large enterprises; (c) encouraging mutually beneficial relationships in the conduct of business transactions between micro, small and medium enterprises; (d) encouraging mutually beneficial relationships in the conduct of business transactions between micro, small, medium and large enterprises; (e) developing cooperation to improve the bargaining position of micro, small and medium enterprises; (f) encouraging the formation of market structure that promotes healthy competition and protects customers; and (g) preventing monopoly or abuse of market power by individuals or groups that adversely affect micro, small and medium enterprises.

The licensing aspect has been set out in Article 12 emphasizing on; (a) simplifying the procedures and types of business licensing with a one-stop integrated service system; and (b) free licensing fees for micro enterprises and lower licensing fees for small businesses. Meanwhile, the aspect of opportunities is also reinforced in Article 13 which emphasizes the importance of attention given to small entrepreneurs by the government for; (a) determining the designation of business premises including the provision of space in markets, store space, space in industrial centers, space for smallholder farming, space for community mining, reasonable space for street vendors, and other spaces; (b) determining the time allocation for micro and small enterprises in the retail trade subsector; (c) reserving the types of business activities that have a specific process, are labor intensive, and have special cultural heritage; (d) establishing business sectors reserved for micro, small and medium enterprises and business sectors open to large enterprises on condition that that they cooperate with micro, small and medium enterprises; (e) protecting certain businesses for micro, small and medium enterprises;

(f) prioritizing the use of products from micro and small enterprises through direct procurement; (g) prioritizing trade in goods or services and the government and local government outsourcing; and (h) providing assistance for legal consultation and pleading.

The aspect of trade promotion as set forth in Article 13 as a form of government involvement that helps entrepreneurs introduce their products in the form of promotions includes; (a) increasing product promotion of micro, small and medium enterprises in domestic and foreign markets; (b) expanding funding sources for product promotion of micro, small and medium enterprises in domestic and foreign markets; (c) providing incentives and incentive procedures for micro, small and medium enterprises capable of providing independent funding in product promotion activities in domestic and foreign markets; and (d) facilitating the selection of intellectual property rights on the products and designs of micro, small and medium enterprises in domestic business activities and export. The local government shall supervise and control the implementation of promotional activities. Meanwhile, the aspect of institutional support is set forth in Article 14 that the government is expected to be involved in developing and improving the functions of business incubators and service institutions. Banking partner consultants and other similar professional institutions are supporting institutions for the development of micro, small and medium enterprises.

## **2. Business Development**

The government's active role, especially local government in business development for entrepreneurs, is urgently needed to help facilitate business development as regulated in Article 16 in the field of; (a) production and management; (b) marketing, (c) human resources; and (d) design and technology. In addition to local governments, the community is expected to participate actively to assist entrepreneurs in developing business activities. As stipulated in Article 17, development in the field of production and management shall be carried out by; (a) improving production and management techniques and management capabilities of micro, small and medium enterprises; (b) facilitating the procurement of facilities and infrastructure, production and management, raw materials, auxiliary materials and packaging for products of micro, small and medium enterprises; (c) encouraging the application of standardization in production and management processes; and (d) improving the design and engineering abilities of medium-sized enterprises.

Development in the field of marketing is closely related to business development, thus the government is obliged to conduct studies and inform the entrepreneurs about matters relating to marketing. The Law on empowerment of MSMEs Article 18 explains that the government is mandated to conduct marketing studies by; (a) carrying out research and marketing studies; (b) disseminating market information; (c) improving management and marketing skills; (d) providing facilities and infrastructure that include market testing, marketing institutions, provision of trading houses, and promotion of micro, small and medium enterprises; (e) providing support for product promotion, network marketing and industry; and (f) providing professional consultants in marketing.

In order to improve the ability of entrepreneurs to manage their business activities, more professional and productive human resources are needed. Although they have an instinctive entrepreneurial character shaped by the environment, they need to be encouraged to develop entrepreneurial spirit to motivate them to create business opportunities. Therefore, the government through the MSME empowerment policy, particularly in Article 19, is expected to conduct coaching related to entrepreneurship development by means of; (a) socializing and cultivating entrepreneurship; (b) improving technical and managerial skills; and (c) establishing and developing educational and training institutions for education, training, counseling, motivation, business creativity and the creation of new entrepreneurs.

In addition to human resource development in the field of entrepreneurship, the government also provides opportunities for entrepreneurs to develop business in the field of design and technology as embodied in Article 20 that the government is expected to encourage entrepreneurs to; (a) improve their skills in design and technology and quality control; (b) enhance cooperation and transfer of technology; (c) enhance the ability of small and medium enterprises in the field of research to develop new designs and technologies; (d) provide incentives to micro, small and medium enterprises that develop technology and conserve the environment; and (e) encourage micro, small and medium enterprises to obtain a certificate of intellectual property rights.

## **3. Financing and Guarantee**

The government provides support to the entrepreneurs of MSMEs in improving the performance of their business in order to be able to manage their business activities in order to be productive, so that they can earn adequate income. However, capital becomes the classic problem that has always been an obstacle for entrepreneurs in developing their business activities. Therefore, the MSME empowerment law in Article 21 explains that; (1) the government and regional governments provide financing for micro and small enterprises; (2) state-owned enterprises may provide financing from annual profit allowance allocated to micro and small enterprises in the form of lending, guarantee, grants and other financing; (3) national and foreign large

enterprises may provide financing allocated to micro and small enterprises in the form of lending, guarantee, grants and other financing; (4) governments, local governments and businesses may provide grants, foreign assistance, and other legitimate and non-binding sources of financing for micro, small and medium enterprises; (5) the government and regional governments may provide incentives in the form of ease of requirements and licensing, lower tariff for facilities and infrastructure, and other incentives in accordance with the legislation to businesses providing financing to micro, small and medium enterprises.

To improve the financing sources of micro, small and medium enterprises, the government in Article 22; (a) develops sources of financing from bank loans and non-bank financial institutions; (b) develops venture capital; (c) institutionalizes factoring transactions; (d) enhances cooperation between micro and small enterprises through savings and credit cooperatives and conventional and Islamic financial service cooperatives; and (e) develops other sources of financing in accordance with the legislation.

To encourage the growth of MSMEs, the government through Article 23 will strive to:

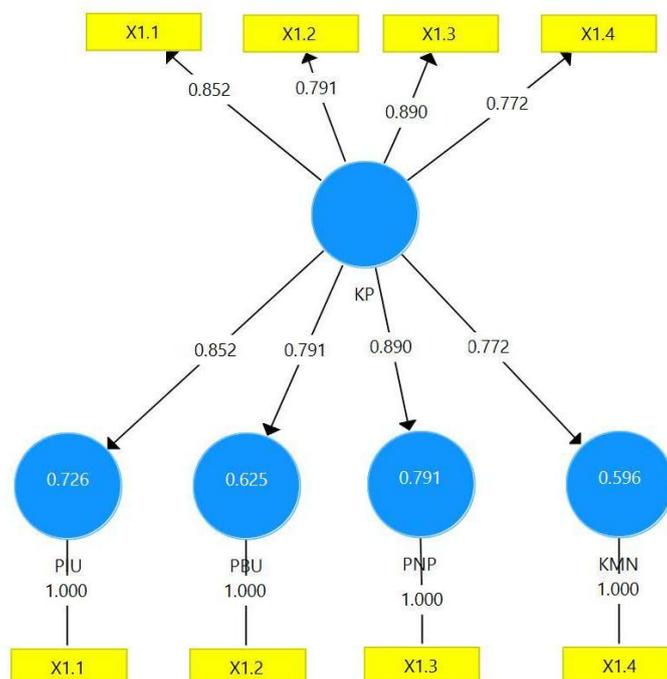
- 1) Improve MSMEs access to financing sources by; (a) increasing, developing and expanding the network of non-bank financial institutions; (b) cultivating, developing, and extending the reach of credit guarantee institutions; and (c) providing convenience and facilities in fulfilling the requirements to obtain financing.
- 2) Encourage businesses and communities to participate actively in improving access of micro, small and medium enterprises to loans or credit by; (a) improving the ability to prepare a business feasibility study; (b) increasing knowledge of credit or loan application procedures; and (c) improving understanding, technical and managerial skills.

## II. MATERIAL AND METHODS

This study is a survey research employing quantitative approach. The population in this study is all micro entrepreneurs in industrial and trade center registered in trade and industry department in Sidenreng Rappang Regency of 1,235. The sample size was determined by using Slovin's formula (Umar, 2004: 107) [7], the minimum sample size (n), therefore, by proportionate random sampling is 92. The data of research variables was collected by questionnaire method to obtain primary data. The data analysis for quantitative approach in this study employed Partial Least Square (PLS), which in this case was used to predict the relationship between latent variables and between manifest variables.

## III. RESULT AND DISCUSSION

The construct of micro enterprises empowerment policy consists of four indicators with reflective relationship. The following figure shows the results of confirmatory factor analysis (CFA) on unidimensionality analysis that exists in the construct of micro enterprises empowerment policy.



**Figure.** CFA Model of Micro Enterprises Empowerment Policy

The construct of micro enterprises empowerment policy is measured from four indicators: (1) business climate improvement, (2) business development, (3) financing and guarantee, and (4) partnership. The unidimensional measurement results of the micro empowerment policy construct is presented in the following table.

**Table CFA Results of Micro Enterprises Empowerment Policy**

Relationship	Original Sample Estimate	Mean Of Subsamples	Standard Deviation	T-Statistic
KP-> PIU	0.868	0.870	0.034	25.754
KP-> PBU	0.794	0.791	0.052	15.418
KP-> PNP	0.894	0.894	0.020	45.050
KP-> KMN	0.347	0.348	0.088	3.938

Composite Reliability (CR)= 0.896 ; Average Variance Extracted (AVE) =0.684

The test on the regression coefficients with a significance level of 0.05 on each indicator of micro enterprise empowerment policy has shown significant result. This result is strengthened by the T-value, which is greater than 1.96. The loading values (lambda) displayed in the result for outer loading are above 0.50, thus providing evidence that each indicator has a high degree of validity to the construct. Indicator of financing and guarantee (PNP) has the largest loading values (0.894).

In the variable of micro enterprises empowerment policy, there are four indicators studied; business climate improvement, business development, financing and guarantee and partnership. In the recapitulation of frequency distribution of micro enterprises policy variable, it can be seen that business climate improvement indicator has the most positive responses by 75 respondents or 82.2%. Business climate improvement indicator is considered to be better than other indicators. However, on the confirmatory factor analysis (CFA), it has a loading factor of 0.868, which is an indicator in the second rank that describes business performance. This indicates that the micro enterprises empowerment policy in Sidenreng Rappang Regency has been implemented in accordance with the expectation of micro enterprises actors, especially on business climate improvement. Micro entrepreneurs have a positive view on the improvement of business climate because they can feel the availability of business information about facilities to open a business, trade transaction process, and matters relating to marketing.

The findings of this study are in line with Guntur’s study (2013) that policy effectiveness of small business empowerment, entrepreneurship motivation, entrepreneurial competence have a significant effect relationship with the performance of small businesses, either partially or simultaneously in Wajo District [8] . Paul Greenbank, (2001) Argues that In practice, micro- businesses generally pursue a number of economic and non- economic objectives relating to factors such as income levels, job satisfaction, working hours, control and flexibility. These objectives were derived from the influence of the micro- business owner- manager’s individual, social and economic contexts. Moreover, the behaviour of owner- managers is most appropriately characterised in terms of satisfying behaviour. The impact of this is very important, because it means that there is often no drive to improve the business in terms of growth, sales and profitability [9].

The government's effort in empowering micro enterprises in Sidenreng Rappang Regency is in accordance with the policy regulated in Law Number 20 Year 2008. The improvement of business climate aims to provide business opportunity to micro enterprise actors and other business actors. Their business can grow by increasing their business capital with funding sourced from banks and non-bank financial institutions. All transactions are made easier for micro enterprises in order to improve their business. Licensing fees are waived for micro enterprises and are lowered for small enterprises. Hafsa (2004) argues that the government's role in developing MSMEs is to improve business climate by establishing legislation and policy covering financing, facilities and infrastructure, business information, partnerships, business licensing, business opportunities, trade promotion and institutional support that can improve business performance [10]. Felicity, Kelliher & Leana Reinl (2009) argues there is an assumption that knowledge must be used optimally within the micro- firm by developing the analytical and critical skills of individuals, groups and the entire organization so as to sustain and grow these firms' competitive advantage. Having identified and catalogued a range of factors that impact micro- firms, the authors propose a “resource taxonomy of micro- firm management practice”, which establishes factor interaction and the interrelationships between each resource in this environment [11].

#### **IV. CONCLUSIONS AND IMPLICATIONS**

Micro enterprises empowerment policy has a significant relationship with micro enterprises performance. The results of this study indicate that micro enterprises empowerment policy covering business climate improvement, business development, financing and guarantee, and partnership contributes to the improvement of micro enterprises performance in terms of sales growth, labor growth, revenue growth, and

market growth. The implication of this study is that the government should keep the development and implementation of micro enterprises empowerment policy continuous in order to improve the quality of life of and the performance of micro entrepreneurs.

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