

**THE ROLE OF UNIVERSITIES IN SUPPORTING MICRO,  
SMALL AND MEDIUM ENTERPRISES IN INDONESIA  
(A Literature Review)**

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**ABSTRACT**

As one of the stakeholder of a significant role in the growth of the Indonesian economy, the existence of Micro, Small and Medium Enterprises (MSMEs) need to be supported. There is a raising trend of MSMEs in Indonesia because most of Indonesia's population has a low education level; therefore they make their living through micro enterprises, both in traditional and modern sector. Based on the calculation of the Central Bureau of Statistics Indonesia, MSMEs growth is increasing to 56,534,592 units with 107,657,509 employees in 2012.

The existence of MSMEs that have proven to be “immune” in financial crisis lead Indonesia in recovering process from world-wide economic crisis. Therefore, every individual should give their best effort to support the existence and growth of MSMEs in Indonesia.

As a university, we are required to meet Tridharma, which one of the obligation is community service. We are obliged not only to engage in educating the internal environment, but even more, we need to open ourselves to participate in educating the entire nation through our contribution in supporting MSMEs in Indonesia. This paper intends to explain how the university can contribute in supporting the existence and growth of MSMEs in Indonesia.

**Keywords: Micro, Small and Medium Enterprises (MSMEs), Universities**

## 1. INTRODUCTION

The increasingly existence of Micro, Small and Medium Enterprises (MSMEs) can be seen on the data from the Indonesia Central Bureau of Statistics (Badan Pusat Statistik/BPS) Indonesia, which records the number of MSMEs as much as 56,534,592 units in 2012 with a contribution to the GDP for 59.08 percent. From that number, MSMEs can absorb as many as 107,657,509 people, or about 97.16 percent of the total number of Indonesian workers.

The role of MSMEs in the Indonesian economy, both in terms of the amount of effort and in terms of job creation cannot be underestimated. Even the existence of MSMEs from the crisis time to date has been actualized capable as a major driving factor for the Indonesian economy. MSMEs are immune to the economic crisis and become a safety valve for the impact of the crisis, such as unemployment and layoffs (Sumodiningrat, 2005), it is mainly due to the capital derived from the MSMEs owner, which is not from the bank and have no foreign debt liability, especially using foreign currency for their payment. Meanwhile, according to As'ari (2013), there are three factors that put MSMEs as one of the parties who is able to prove itself to be a business that has a competitive and dynamic advantage in economic growth. Those factors are the use of raw materials originating from within the country, the use of low-payment labor and relatively moving fast towards the adjustment of raw material usage and market-oriented.

From their role in the Indonesian economy, it can be said that MSMEs become one of the priorities in the development agenda in Indonesia through the support of policies that are conducive and can eliminate the problems that hamper the efforts of MSMEs empowerment. The policies that can be carried out by the government in order to overcome the problems of MSMEs capital as described by Wulandari, et al. (2014) are:

1. The credit policy for production and policy to protect MSMEs product from the foreign products and large industries competition in the market.
2. Financing of MSMEs that can be accessed easily, quickly and cheap.
  - For MSMEs who have not feasible and not bankable yet, can access financing by participating programs that are included in the National Program for Self Empowerment (Program Nasional Pemberdayaan Mandiri/PNPM), for example, productive financing, cooperative micro-enterprises, and PERKASSA Program (Women

Healthy and Prosperous)

- MSMEs who are feasible but not bankable, can gain financing from Community Business Credit (Kredit Usaha Rakyat/KUR) and PNPM through a revolving fund through the Revolving Fund Management Institution (Lembaga Pengelola Dana Bergulir/LPDB).

3. Development of Microfinance Institutions.
4. Governmental work plan to establish a deposit insurance institution (Lembaga Penjamin Simpanan/LPS) for financial service cooperatives.

Besides the government, other parties who can help the empowerment of MSMEs in Indonesia is the universities. In line with community service activities in Tridharma, it is the responsibility of the academicians in using science and technology to advance general prosperity and develop the nation's intellectual life. This community service can be done through empowerment activities to MSMEs as a business with many people involved in it and become a driver of Indonesian economy.

## **2. Theoretical Review**

### **2.1. Micro, Small, and Medium Enterprises**

Based on the Law of the Republic of Indonesia Number 20 Year 2008, the definition of micro, small and medium enterprises are described as follows: Micro businesses is a productive enterprise owned by individuals and/or entities that meet the criteria of micro businesses as stipulated in this Law.

Small businesses are an independent productive economic activities, which is done by the individual or business entity that is not a subsidiary or branch company which owned, controlled, or be a part either directly or indirectly, of a medium or large businesses that meet the criteria of small businesses as referred to in this Law.

Medium-sized businesses are an independent productive economic activities, which is done by the individual or business entity that is not a subsidiary or branch company which owned, controlled, or be a part either directly or indirectly with a small business or large enterprise with total net assets or the annual sales revenue as stipulated in this Law.

Business types that are classified as Micro, Small and Medium Enterprises (MSMEs) is proliferation in Indonesia, this is because most of the Indonesian have a low education level and they make

their living through small business activities, both in traditional and modern sectors.

However, their existence has been recognized to be the foundation of the national economy. The increasing number of MSMEs each year has proved this.

MSMEs are the largest economic activity in number and its ability to absorb labor. Therefore, MSMEs empowerment becomes a strategic step that can be taken to help improving Indonesian economic. Prasetyo (2008) described that MSMEs have an important in economic-social-political by increasing community's earning, reducing unemployment and poverty and urbanization movement. While Darwanto explained three reasons why the existence of MSMEs in Indonesia is important, those are:

- MSMEs absorb many labor power and reduced poverty.
- MSMEs encourage equitable development, which will reduce the spatial discrimination between urban and rural.
- MSMEs encourage the equitable sharing of earnings.

Darwanto also stated that the role of MSMEs in Indonesia at least can be seen from (1) their position as a main player in economic activity in various sectors, (2) absorb relatively higher workforce than large enterprises, (3) a significant player in the development of local economic and community empowerment, (4) contribution to export activities.

But, behind all roles that have been carried out by MSMEs in charge of national economic growth, there are still a few problems faced by SMEs. As explained by Urata (2000) in Adiningsih, there are two main problems faced by MSMEs, which are financial and non-financial (management organization) problems.

Financial problems are:

- The lack of conformity (mismatch) between the funds available and accessible by MSMEs.
- There are no systematic approaches in MSMEs funding.
- High transaction costs, which are caused by the complicated credit procedure that took a lot of time while loans disbursed is in a small amount.
- Access to formal sources of funds is limited, either due to the lack of banks in the rural areas or the unavailability of adequate information.

- Credit interest rate for investment and working capital is high.
- Many SMEs are not bankable, either due to the lack of transparent financial management or lack of managerial and financial capabilities.

While the non-financial (management organizations) problems are:

- Lack of knowledge on production and quality control technology, caused by the small opportunity to keep up with technology development and limited education and training.
- Lack of marketing knowledge, which is caused by the limited information that can be reached by MSMEs about the market, in addition to the limited MSMEs ability to provide products/services that can meet market demand.
- Limitations of human resources (HR) and lack of resources to develop human resources.
- Lack of understanding of finance and accounting.

Some recommendations for MSMEs development strategy as described by Sriyana are:

- Easiness in capital access  
Increased banking competence through the provision of credit to empower MSMEs by providing total solutions, starting from capturing a potential new entrepreneurs, nurture, then grow them.
- Infrastructure development support  
Development of production infrastructure and marketing through the provision of transportation from the production site to the market that will reduce the marketing chain thereby increasing earnings of the MSMEs.
- Business scale development  
Economic empowerment through group approach aimed to easy access to the capital of available financial institutions and in order to build an economical scale business.
- Business networks, marketing and business partnership development  
Business network for connecting or linking between the MSMEs with large companies, marketing network to establish MSMEs data centers, and business partnerships that can be built in the areas of capital, production and marketing processes.
- Human resources development  
The first activity that can be done is through training, both in

terms of entrepreneurship, administration and knowledge, and skills in business development. While the second activity is through mentoring programs by facilitating the learning process or reflection and become a mediator for the partnership strengthening.

- Increased access to technology  
Strategy that needs to be done in improving the access to technology for MSMEs development is motivate various technological research institutes that is more oriented to the improvement of technology according to the needs of SMEs, the development of design innovation center in accordance with market needs, the development of mentoring centers and technology diffusion which are more dispersed to MSMEs locations and increase cooperation between the MSMEs associations and universities or research centers for MSMEs technological development
- Achieve a more conducive business climate  
Strategies that can be done is to carry out reforms and deregulation of licensing for MSMEs, to facilitate the implementation of the economically efficient business environment, healthy and non-discriminatory competition for the continuation and improvement of the MSMEs performance, the abolition various inappropriate charges, cross-sectoral policy integration, and the supervision and the defense against the unfair competition practices and supported by the improvement of legislation and institutional development.

## **2.2. Universities For the development of MSMEs**

The gap between MSMEs role as an economic driver with their problems become an obstacles for MSMEs development itself. As has been described above, that one of the MSMEs main problems is the capital limitations.

Barriers for MSMEs capital are due to low human resources (HR) in providing information to assess and monitoring MSMEs development. This information is needed by capital providers to become a basis of capital distribution.

To answer these problems, an effort that can be done is to provide an opportunity for universities to perform their role. Based on

the Law of the Republic of Indonesia Number 12 Year 2012 on Higher Education stated that universities Tridharma is an obligation to provide education, research, and community service. Community service is an academic activity that utilizes science and technology to improve the welfare of the community and to educate people.

Through community service activities, Higher Education can do its part to promote the welfare of the community and educate people through the provision of training and mentoring for MSMEs in the surrounding environment. Providing training and mentoring is done in the framework of the preparation of the information required to provide facilities for MSMEs in accessing capital.

### **3. Conclusion**

In order to perform the Tridharma obligation on the implementation of community service activities, Universities can participate to advance general prosperity and develop the nation's intellectual life. This role can be carried out through training and mentoring activities to the surrounding MSMEs in universities environment.

Training and mentoring activities to the MSMEs are intended to improve the quality of human resources, especially in order to meet the problems faced by MSMEs, which is a capital limitation. This problem occurs because of the unavailability of information required by the capital provider to assess MSMEs feasibility.

This is where the role of the universities to provide training and mentoring to MSMEs in various ways that can be done, such as training on how to prepare financial statements for credit application or mentoring in the usage of credit and its payment through the examination of the use of funds reports.

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