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**Master's Thesis of Public Administration**

**The Effect of Implementing the  
Business Permit Policy as a Formalized  
Business for Small Micro Enterprises in  
Districts of Indonesia**

인도네시아 지역내 소기업을 위한 정형화  
된 사업으로서 사업허가 정책시행의 효과

**August 2019**

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# **The Effect of Implementing the Business Permit Policy as a Formalized Business for Small Micro Enterprises in Districts of Indonesia**

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## **Abstract**

# **The Effect of Implementing the Business Permit Policy as a Formalized Business for Small Micro Enterprises in Districts of Indonesia**

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Micro and small enterprises (MSE) in developing country especially in Indonesia has an important role, because of its huge amount of the business actors and bring good contribution to labor work force as well as gross domestic product. However, these MSE still faced some problems that made them hard to develop its business. The problems are such as, not have the license for their business; limited acces to capital resources and domestic/foreign markets; limited development of product such as quality, design, and packaging; and low technology usage.

Considering these problems, then the government of Indonesia creates a policy about the business permit called Ijin Usaha Mikro Kecil (IUMK) especially for micro and small enterprises through its presidential regulation number 98 year 2014 and ministry of home affair regulation number 83 year 2014 about guidance on processing business permit for micro and small enterprises in Indonesia. Hence by using descriptive analysis this research

aimed to know the effect on Having Business Permit (IUMK) as A Formalized Business especially for Small Micro Enterprises in Districts of Indonesia.

As the result of this research that there is relationship between implementing business permit for MSEs to the development of micro and small entrepreneur in 23 districts of Indonesia. By having business permit these MSEs could be recorded, had some access such training, marketing link and even access to capital like from bank or non-bank institutions.

**Key words:** Micro and small enterprise, MSE's obstacle, Formalized business, Theory of informal sector.

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# Chapter 1: Introduction

## 1.1. Background of the study

Small Medium Micro Enterprises (SMMEs) had important rule, especially in Indonesia. SMME's sector has been proved tough when Asian economic crisis happened in 1997. SMME sector survived the collapse of the economy while other large sectors collapsed. SMME could survive for several reasons. Firstly, because it had not had foreign debt. Secondly, they had just little debt to the bank because most of them were considered not bankable. Thirdly, they used local input; and the last one, SMME was export-oriented (Mudrajad Kuncoro, 2008). The development of SMME in Indonesia is quite significant.

The role of SMME in the economy of Indonesia is demonstrated by its population as the largest business actors, its contribution in employment and the formation of gross domestic product, exports and investment. Based on the sectors, most SMME are engaged in primary (50.1%), tertiary (42.5%), and small sectors in the secondary sector (7.4%) (*Ministry of Cooperatives and Small Medium Enterprises, 2013*). We can see from this table, Indonesian MSMEs are dominated by Micro business (This table shows that the domination of Indonesia's MSME is micro business).

**Tabel 1. Contribution of Small and Medium-sized Micro Enterprises to The Number of Businesses, Labor Work Force, and Gross Domestic Product**

Enterprises Scale	Business Unit		Labor Work Force		Labor Ratio per Unit Business	Contribution to GDP	
	Total	%	Business Total	%		Business Total	%
Micro Enterprises	57.189.393	98,8	104.624.466	88,9	1,83	3.326.564,80	36,9
Small Enterprises	654.222	1,1	5.570.231	4,7	8,51	876.385,30	9,7
Medium Enterprises	52.106	0,1	3.949.385	3,4	75,80	1.237.057,80	13,7
Big Enterprises	5.066	0,0	3.537.162	3,0	698,22	3.574.943,30	39,7
<b>TOTAL</b>	<b>57.900.787</b>	<b>100,0</b>	<b>117.681.244</b>	<b>100,0</b>	<b>2,03</b>	<b>9.014.951,20</b>	<b>100,0</b>

(Source: Data from Ministry of Cooperative & SME, 2013)

Moreover, overall performance of SMME varies considerably from year to year. The contribution of gross domestic product of SMME also decreased from 58.6% in 2008 to 57.5% in 2012. This condition was caused by the growth rate of SMME output, which tends to fluctuate and still lower compared to the growth rate of big business output (*Ministry of Cooperatives and Small Medium Enterprises, 2012*).

Furthermore, Van Praag and Versloot (2007) argue that four economic benefits of entrepreneurship have been proved. First, entrepreneurs and small business contribute positively to job generation. Second, they are integral to innovatory processes that bring new ideas and new products or service to the market. Third, they promote productivity and economic growth. Finally, entrepreneurs and small business owners and managers are important for

people seeking higher “utility” either in terms of achieving greater income or job satisfaction.

Nevertheless, Indonesian SMMEs faces some problems such as low productivity to growth in economic growth. This condition causes missing middle, when the economy is experiencing a deficiency and is needed to support industrialization and exports. This condition also influences the extent to which SMME can participate in global production and marketing networks.

Despite its low productivity, SMME has better resistance to crises, due to a more flexible organizational structure and workforce to adapt to major changes. Durability and flexibility make SMME used by some people as the main source of livelihood. SMME capacity and productivity improvements made through strengthening assets, skills, and connectedness with business networks and marketing in an established business.

Other problems faced by SMEs in its development are many Micro and Small Businesses do not have the license for their business; limited access to capital resources and domestic/foreign markets; limited development of product such as quality, design, and packaging; and low technology usage. Of these problems, licensing factors play an important role in the sustainability of micro and small enterprises. The biggest challenge for the government is how to empower SMEs in developing their business and gaining profit to reach higher level such as from micro into small as SMEs actually have enormous potential in mobilizing national economy and providing employment.

Considering these problems, the government of Indonesia, make policies to help SMME. One of the policy relates to business permit. Previously, the government of Indonesia had a regulation of business permit for SMME, which is called SIUP (Surat Ijin Usaha Perdagangan). This is a license issued by Sub-District office for doing business especially for trader, but the process of applying the business permit took times and cost.

Furthermore, in order to make it easier for SMME to have the business permit, Ministry of Home Affair launched a policy of business permit especially for the micro and small enterprises. By using Presidential Regulation Number 98 the Year 2014 concerning Licensing for Micro Small Business (SME) and Minister of Home Affairs Regulation No. 83 year 2014 on Guidance on Granting Micro and Small Business License as the legal basis, this permit is called one sheet manuscript of license for small micro enterprises (Ijin Usaha Mikro dan Kecil, IUMK). The permit is issued by District office.

The objectives of IUMK are: to provide certainty and protection in the effort in the established location and to facilitate SMEs an access to productive resources such as: access to other banks and non-bank financial institutions, access to business development assistance, market access, and ease of empowerment from government or institution. The main goal is to create more sustainable business and to enable SMEs reach the higher level, like from micro could become small enterprises and so forth.

The issuance of IUMK shall be the authority of the Mayor delegated to district heads or village heads in their respective areas, with simple, easy and fast mechanisms/procedures, and no cost (free).

## **1.2. Research questions and purpose of the study**

Based on the background previously mentioned, the research questions are:

1. Is the policy regarding small micro business permits (IUMK) implemented or not?
2. What is the effect of having business permit (IUMK) as a formalized business for small micro enterprises in districts of Indonesia?

The purpose of this research is to know the effect on Having Business Permit (IUMK) as A Formalized Business especially for Small Micro Enterprises in Districts of Indonesia.

## **1.3. Scope of the study**

The study is based on the research methodology to define more due to outcome on becoming formalized business by applying the business permit for small micro enterprises. The unit of analysis of this study is on 23 district of 11 provinces from three region part in Indonesia during year 2015 until 2017. The study will focus to head of district, small and micro entrepreneur and companion of micro and small enterprises.

## **1.4. Methodology**

This study uses descriptive analysis by using the secondary data from Deputy Assistant for improvement and welfare development especially in the field of business improvement and development in Vice Presidential Office under Ministry of State Secretariat Republic of Indonesia by doing depth interview straightly to the Micro and Small Entrepreneur.

## **Chapter 2: Literature Review**

This chapter provides the conceptual discussion of the important terms used in the study and the theoretical parts that underline the study: definitions of small micro enterprises, legal foundation for the development of MSEs in Indonesia, business permit and theory of informal sector that suitable for Indonesia taken from different sources like books, academic papers, journals, articles and any other online publications. This chapter also presents previous studies on effect of business permit for MSEs. The theoretical framework of the study is developed based on these literature reviews.

### **2.1. Nature of Micro and Small Enterprises (MSEs) in Indonesia**

At a time, the economy in Indonesia faced multidimensional economic problems and the large scale businesses were not being able to maintain their existence, micro, small, medium enterprises (MSMEs) can still exist (Wijaya, 2008). This might be understandable because MSMEs will get bigger, for instance from micro could become small enterprises and so forth. Besides, MSMEs have their own characteristics compared to multinational company. This can be seen as follows.

#### **2.1.1. Definition of MSEs**

Micro, Small and Medium Enterprises (MSE) is a manufacturing business that specifically produces finished goods, adds value / trade and services (*Statistics of Indonesia*). Enterprises in the field of manufacturing is a

business that processes raw materials / basic materials into finished products. Enterprises in the field of trade is a business that sells products to consumers. While the business in the field of services, it is a business that produces services, not produces products or goods for consumers.

There are several different definitions in determining micro and small businesses. The Characteristics of micro or small business grouped by net assets, and total sales (turnover), and there are some grouping based on the amount of workforce owned, as follows:

a. Ministry of Cooperative and Small Medium Enterprises

According to the Ministry of Cooperatives and SMEs in Law no. 20 of 2008 on Micro, Small and Medium Enterprises' definition:

1) Micro Business is productive business owned by individual and / or individual business entity fulfilling the criteria of Micro Business as follows:

- It has a net worth of at most IDR 50 million excluding land and building of business premises;
- It has annual sales of at most IDR 300 hundred millions.

2) Small-scale business is a stand-alone productive economic enterprise, carried out by an individual or business entity that not a subsidiary or not a branch of a company, owned, controlled, or becomes part directly or indirectly of a Medium Business or a Large Business that meets the Business criteria Small as follows:

- It has a net worth more than IDR 50 million up to 500 hundred million, excluding land and building of business premises;
- It has annual sales of more than IDR 300 hundred million up to IDR 2.5 Billion.

b. Statistics of Indonesia

Limitation of Micro and Small Business based on the number of worker owned by the Central Bureau of Statistics is:

- A micro-enterprise is a business that has less than five employees, including additional unpaid family members.
- A small business is a business that has 5 to 19 workers.

c. Central Bank of Indonesia

While the criteria of micro and small enterprises according to Bank Indonesia (SK Director of BI No.31 / 24 // Kep / DIR dated May 5, 1998), are

- Micro-enterprises are businesses run by the poor or near poor. Owned by family of local resources and simple technology, easy field of business for exit and entry.
- A small business is a stand-alone productive economic enterprise. It carried out by an individual or a business entity which is not a subsidiary or not a branch of a company owned, controlled, or becomes part of either a direct or indirect business of a medium-sized or large business with net worth more than IDR 50 million up to 500 hundred million. Excluding land and building of business premises or having annual proceeds of more than IDR 300 hundred million up to 2.5 billion.

d. World Bank

The limits of micro, small and medium enterprises according to the World Bank are (OECD 2012: 80)

- A small business is a business that has 5 to 19 workers.
- Medium Enterprises are businesses with between 20 and 99 employees.

### **2.1.2. Characteristics of MSEs**

Characteristics of SME based on RAND Cooperation researcher, as follows (*Reforming Policies for Small and Medium-Sized Enterprises in Indonesia*, TNP2K. 2014):

- Most of the businesses in Indonesia are micro, small and medium enterprises, and contribute substantially to economic growth and employment;
- small and medium micro enterprises in Indonesia tend to pay low wages;
- small and medium micro enterprises tend to have lower production compared to the big enterprises;
- SMEs tend to be low educated, and highly educated business actors prefer to manage large businesses that are officially registered;
- Some SMME's only serve the local market and do not try to expand their business (higher level).

While the characteristics of small businesses according to Pandji (2002: 225), as follows:

- Simple on Financial report systems and tend not to follow the rules of standard financial report administration;
- The business margin tends to be thin, given very high competition;
- Limited capital;
- Limited managerial experience as well as managing the company;
- Small in economics of scale;
- Limited in marketing and negotiation capabilities and market diversification;
- The ability to obtain sources of funds from the capital market is low, keeping in mind the limitations in its administrative system;

The micro business group has the following characteristics (Jurnal Pengkajian Koperasi & UKM. Volume 4 - Agustus 2009: 18-36 Kajian Pengembangan Formalisasi UMKM):

- It's an individual business with relatively small capital and managed with family management;
- Low in human resources' quality;
- Limited scope and business network;
- Consumers and market segments are already certain;
- Types and business activities are very easy to change (dynamic).

## **2.2. Problems encountered in Micro and Small Enterprises especially in developing country**

As any other business, MSEs especially in Indonesia as a developing country has also faced some problems in running their businesses. Information has an important role in the decision making a process for small, medium sized business (Mutula and Brakel, 2006). According to Dasanayaka, Kankanamge and Sardana (2011) and Triani and Cagno (2012), obstacles relate to information with the accessibility of MSMEs in obtaining information, while expanding the business, no information about the market opportunities, technologies changes is seen as another barrier to innovation (Kamalian et al., 2011). Information about the company's external environment, such as market opportunities, technological changes and government policy support make the business sector more competitive (Guijarro, Garcia and Auken, 2009).

Moreover, some researches had been conducted by some researchers in Indonesia. Based on Ishak, (2005) a problem encountered and simultaneously become MSMEs weakness is the lack of access to information, especially market information. Other research done by Musaroh and Wijaya (2015), the result of their research was in some MSMEs especially in Yogyakarta region, 87% from 117 business practitioners of MSMEs expect help and development from the government in accordance to the problems faced by MSMEs.

Besides, based on the research done by Tony Wijaya et al. (2017) the problems that faced by MSMEs are divided into two, first is from the external factor such as situation and condition, location, business permit, competition

and business information. While the internal factors are management of the business that still limited, less skill workers, limited marketing and capital.

Furthermore, according to central bank of Indonesia (Bank Indonesia),. There is gap between Indonesian MSMEs and banking industries, as follows:

**Table 2. MSMEs versus Banks**

MSMEs	Banks
<ul style="list-style-type: none"> <li>• Large number of people are in the need of relatively small amount of financing;</li> <li>• Limited formal legal documents e.g. business identity, tax ID number, collateral etc;</li> <li>• Lack of sufficient financial transactions report;</li> <li>• Psychological factors.</li> </ul>	<ul style="list-style-type: none"> <li>• Cost transactions vs profit;</li> <li>• The need of formal legal documents;</li> <li>• The need of MSMEs financial information;</li> <li>• Innovative banking products that meet MSMEs needs;</li> <li>• Outreach and the need of networking/ technology support.</li> </ul>

Source: Central Bank of Indonesia (Bank Indonesia)

The last but not least, problems that have been taken based on the research done by some staff in assistant deputy for welfare improvement and development, Vice President Office, various problems faced by MSEs in its development are as follows:

- a. many micro and small businesses do not have permits for their businesses;
- b. accessibility to capital sources is still very limited;
- c. product development such as in the field of quality, design and packaging is still limited;

- d. Access to domestic and foreign markets are weak;
- e. The use of technology is still low.

of these problems, the researchers will point out that licensing factors play an important role in sustainable of MSEs in Indonesia.

### **2.3. Legal framework of business permit for MSEs in Indonesia**

Based on the problems stated above, the government through some stakeholders that relate to MSMEs tries to regulate a regulation in order to develop and help MSMEs. There are some policies underlying the granting of SME licenses, such as:

- a. Law Number 20 Year 2008 regarding Small and Medium Micro Enterprises Article 7 and 12;
- b. Law No. 3/1982 on the Obligation of Corporate Registration;
- c. Government Regulation No. 17 of 2013 on the Implementation of Law no. 20/2008 on SMME;
- d. Presidential Regulation Number 98 Year 2014 on Licensing for Small Micro Enterprises;
- e. Regulation of the Minister of Trade Number 46 Year 2009 on Amendment to Permendag. 36/2007 on the Issuance of Trade Business License;
- f. Regulation of the Minister of Home Affairs Number 83 of 2014 concerning Guidelines for the Granting of Micro and Small Business Licenses;

- g. Circular Letter of the Minister of Cooperatives and SME Number 15 / M.KUKM / I / 2015 to the Governor, Regent / Mayor to help UMK get IUMK;
- h. Memorandum of Understanding between Minister of Cooperatives and SME, Minister of Home Affairs and Minister of Trade (No. 503/555 / SJ, Number 03 / KB / M.KUKM / I / 2015 and Number 72 / M-DAG / MOU / I / 2015, January 2015);
- i. Cooperation Agreement (PKS) between Echelon I Officials Ministry of Cooperatives and SMEs, Ministry of Home Affairs and Trade Ministry, BRI and ASSIPINDO.

However, from these regulations, this research will specifically focus on the legal foundation due to the business permit issue. The legal foundation is taken from Law Number 20 Year 2008 regarding Small and Medium Micro Enterprises Article 7 and 12, from this will be more described through Minister of Home Affairs Number 83 of 2014 concerning Guidelines for the Granting of Micro and Small Business Licenses as well as Presidential Regulation Number 98 Year 2014 on Licensing for Small Micro Enterprises.

Those regulation stated that Indonesia's government is applying the business permit called as one script of business license for small and micro enterprises. This license is easier and faster than previous business permit. The purpose of this license is providing certainty and protection in the effort of established location and facilitating SMEs to access productive resources such as: access to finance to other banks and non-bank financial institutions, access

to business development assistance, market access, and ease of empowerment from government or institution.

Moreover, the definition of business permit (IUMK) is a sign of legality to a person or business actor / certain activity in the form of a one-page manuscript. After having this permit, the MSEs could have the IUMK cards coordinated with one of Indonesia's government bank called Bank Rakyat Indonesia, which depends on each district's policy. The issuance of UMK permits is the authority of the head of regent delegated to the head of district in their respective areas, with mechanism / procedure that is simple, easy and fast, and no cost (free). The processes of having this business permit are as follows:

1. First and foremost is the MSEs apply the form of the license by attaching some data such as cover letter from the neighborhood association, copy of ID, in 4x6 size photos and then fill in form;
2. Second, after completing all of the documents, the MSEs will compile to the local sub-district office;
3. The local sub-district officers will check all the documents precisely, if any documents are still not complete, the officers will give it back to MSEs and if complete, then they will proceed it in just one day service.
4. Revocation of a business license will be carried out if the MSEs commits an offense.

## **2.4. Business permit**

Business permit become one of the legal part for running the business especially for the entrepreneur, starting from micro until medium size business. It is required as a stage of developing its business into higher size business compared to previous size of the business. The explanation about business permit especially for MSEs will be elaborated further as follows.

### **2.4.1. Definition of business permit**

Permit is a juridical instrument used by the government to influence the community to follow the recommended ways to achieve a concrete objective (Ridwan HR, 2006:217). As an instrument, the license serves as the spearhead of the law as a steering, engineering and designer of a just and prosperous society, hence structuring and licensing of permits should be done as good as possible.

Formalization could be defined as registration or license of an economy activity under the laws and regulations of the land from which a business is operating (Mashiri 2014, *SME's Transitioning from Informality to Formality*). “We find evidence that becoming officially registered leads to an increase in profits and investments, and a decrease in the use of casual labor (improved contract conditions for workers). Thus, we conclude that formalizing is beneficial for both firms and the workers in these firms (John Rand and Nina Torm’), which main point is formalization can be mutually beneficial between the business actor and his workforce.

Besides, the formalization of SMEs means the licensing of certain business activities and legal entity status for SMEs in accordance with the provisions of applicable legislation (Jurnal Pengkajian Koperasi & UKM 2009). SMME's formalization is divided into two form, namely: a). Company formalization, a legalization of legal entity form of the company concerned. For example Trading Business, Individual Company, Firm, Limited Liability Company, and others; b). Licensing of business activities issued by sectoral agencies / institutions, for example, Business License Establishment, Mining Permits, Environment Permit, Route Permit, and others. Legalization of the company's legal entity becomes the authority of the Department of Law and Human Rights (HAM) delegated to Notary. Therefore, the cost is relatively large enough for the size of micro and small businesses. Anwar (1995) also argues that business partners and various supporters of the development of an economic business unit (banking, marketing institutions, and insurance institutions) to undertake cooperation pay great attention to the characteristics of a company. One of the facts seen is the formality of the company.

Nevertheless, practically SME is not easy to get the legality or formalities of its business. By looking at Law No. 20 of 2008 on MSMEs and based on MSE characteristics (as described in the previous chapter), that Micro and Small Business Enterprises are individual businesses or individual business entities and not yet legal entities, which have many limitations in various aspects such as capital, human resources, marketing, etc. Licensing of business activities more required by UMK, for instance:

- Carry out business activities, expand business or develop SME business network;
- As a formality of business that ensures guarantees for prospective partners and or stakeholders;
- Avoid illegal charges.

Licensing simplification program is a step to improve the business climate that will directly impacts on increasing the competitiveness of SMEs. SME is an individual business and is not required to have a business entity, so that business license is required. License of business activity is a form of regulation of government control over individual business activities that directly or indirectly relate to the physical economic and social environment. Business licenses are needed to protect communities from negative impacts (externalities dis economics) that exploit the environment. It is also required in the framework of coaching:

- Facilitate entrepreneurs in accessing productive resources;
- Protect entrepreneurs from various illegal charges;
- Encourage the establishment and / or development of business networks.

In article 5 and 6 of Law no. 3/1982 on the Obligation of Corporate Registration stated that Every Company must be registered in Company Register. However, the exception of the mandatory list is any individual small company run by a private employer or by employing only the immediate family members and does not require a business license and is not a legal entity or a

partnership. Furthermore, in articles 36 and 37 of Government Regulation no. 17/2013 on the Implementation of Law no. 20/2008 on SMME's. It explained that SMME's in conducting their business must have evidence of business legality in the form of business license, registration certificate, or proof of registration.

#### **2.4.2. Role of formalization**

Miriam Bruhn and David McKenzie stated that “the majority of microenterprises in most developing countries remain informal despite more than a decade of reforms aimed at making it easier and cheaper for them to formalize.

By formality, we mean a business is registered for relevant municipal licenses and with the tax department”. For example, Brazil simplified its taxation system for small businesses, and the state of Minas Gerais introduced a “one-stop shop”, which has become a popular way of streamlining the registration process for firms worldwide. After this effort, a government survey found that 72% of enterprises in state remained informal (Andrade et al. 2013).

One view, popularized by Hernando de Soto (1989), is that these informal firms owner would like to be formal but costly regulations and bureaucracy prevent them from doing so, causing a productivity loss for these firms. The implication is that policymakers should attempt to reduce these barriers and bring these firms into the formal sector.

A competing view, associated with Maloney (2004) and others, is firms that would benefit from formalizing do so, whereas smaller and less productive firms rationally opt out of the formal sector because they perceive little benefit from becoming formal.

Hence, Joshi, Prichard, & Heady, 2012 defined formalization as it is assumed to benefit the firms through increased access to credit, greater opportunities to engage with large firms and the government, or greater access to training and support programs.

### **2.4.3. Additional business permit for MSEs in Indonesia**

There are three kinds of business permit particularly for SMEs in Indonesia, as follows:

#### **1. Business license for trader (surat izin usaha dagang)**

Trading Business License (SIUP) is a Letter of Permission to be able to carry out trading business activities. The purpose is as a legality of business in the field of trade. After having this license, they will register the certificate of company registration (TDP). This certificate is a letter of signature / ratification given by the Company Registration Office to the company that has registered the company. Its purpose is correctly recording information about a company including identity, data and other information about the company, and this information ensures business certainty for the business world.

Besides, there are some benefits of trading business license and certificate of company registration:

- a. As an official licensing and registration from the government for a trading business entity (having legal protection);
- b. As main requirements in activities that support the business (access credit to banks and to other government programs);
- c. Support the business if you want to do international trade;
- d. Improve the credibility of the company.

Moreover, the table below shows the requirement for applying Trading Business License (SIUP) and certificate of company registration (TDP).

**Table 3. Requirement of applying Trading Business License and Certificate Company Registration**

Trading Business License (SIUP)	Certificate of Company Registration (TDP)
<ul style="list-style-type: none"> <li>• Copy of ID card</li> <li>• Copy of taxpayer user number card</li> <li>• Statement Letter from the applicant regarding the location of the company's business</li> <li>• Photo size 3x4 (2 pieces)</li> <li>• Fill in the form of:               <ul style="list-style-type: none"> <li>- identity of the owner or person in charge</li> <li>- company identity</li> <li>- the legality of the company</li> <li>- capital and stock</li> <li>- data of the company's activities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Copy of identity of owner</li> <li>• Copy of deed of establishment of company</li> <li>• Other business-related licenses</li> <li>• Copy of trading business license</li> <li>• Copy of taxpayer user number card</li> <li>• Fill in the form of:               <ul style="list-style-type: none"> <li>- identity of the owner or person in charge</li> <li>- company identity</li> <li>- the legality of the company</li> <li>- capital and stock</li> <li>- data of the company's activities</li> </ul> </li> </ul>

Source: Law number 3 year 1982

The legal base of this permit is law number 3 of the year 1982 on the Obligation of Company Register and Regulation of the Minister of Trade No. 36 / M-Dag / PER / 9/2007 concerning Issuance of Trading Business License. The process

to apply this business permit is longer than IUMK related to the requirements and costly based on type of business.

## **2. Disturbance permission**

Another permit is disturbance permission. Disturbance License means the granting of business / activity permits to an individual or entity in a particular location that may cause harm, loss and disruption, excluding the place of business / activity determined by the Central Government or the Regional Government. Disturbance permits are set out in local regulations and one of them contains a permit levy. The granting of a license is the authority of the Regent / Mayor. The legal base is Regulation of the Minister of Home Affairs Number 19 of 2017 on Guidelines for Determination of Interference Permits in the Region.

## **3. Business certificate**

Business certificate that launched by the sub-district office is required as one of the requirements for company registration process and IUMK. It is used as business address description. It functions as legality of micro business for banking and free of charge. Law number 3 year 1982 Concerning Obligation of Company Register with their respective Regional Policies as the legal base.

## **2.5. Theories of Informal Sector**

Based on TNP2K (2014) policymakers in Indonesia are concerned about the size of the informal sector for several reasons, which are:

- a) Informal firms do not pay taxes and this restricts the government's ability to provide support for public goods and services (Levy, 2008);
- b) The coexistence of formal and informal firms means that some firms competing in the same industry face different marginal production costs (labor costs and taxes);
- c) Informal firms may be competing unfairly with law abiding formal sector firms, using their cost advantages to obtain market share. This could restrict economic growth (Farell, 2004). Since informal firms may not be able to legally obtain access to financial credit or export their products, informality may directly constraint economic growth.

Moreover, there are three different views of informality discussed in the literature on firms in developing countries (Parry et al, 2007):

1. Exclusion Model
2. Rational Exit Model
3. The Dual Economy (Lewis 1954; Harris and Todaro 1970; Rauch, 1991)

Although those models may oversimplify real conditions, they provide a useful way of thinking about the informality problem and of framing the debate. More importantly, the appropriate policy response to informality depends crucially on the extent to which of these different model explains why firms decide to remain in the informal sector.

1. Exclusion Model

Government regulations exclude or hold back, a large potential pool of entrepreneurs (De soto 1989, 2000). In this view, informal firms are an

untapped reservoir of entrepreneurial energy, which can be released by reducing entry regulations and changing legal environments (property rights, informal taxes).

The exclusion view of formality also tends to be consistent with “missing middle” stories (Tybout 2000; Hsieh and Olken 2014). If expensive regulations hold back firms, there may be a large pool of informal sector firms that cluster at the threshold of formality.

If impractical, high cost registration procedures are holding back firms and keeping them informal, the best policy response to the informal sector is to drastically lower registration costs. However, this is a widely held view among policymakers who feel that if the costs of registration were lower, more firms would formalize.

Many existing government programs, such as Indonesia’s One Stop Shops (OSS) for business license, focus on reducing the costs of business registration.

## 2. The Rational Exit Model

This model is associated with Levy (2008) and Maloney (2004). This view posits that firms rationally exit the formal sector when the benefits of formality are outweighed by the cost of being formal. When firms decide formality to remain informal, they weigh the benefits of formality, such as reduces chances of informal payments, increased access to banks, courts, government contracts or skilled labor, against the costs of formality, including tax payments, registration costs and the cost of complying with different business regulations, such as official labor market policies.

Firms make the formality decision like any other investments decision, evaluating expected benefits and costs. Based on this theory, informal sector firms may enjoy tax advantages, cheaper wage rates and other cost advantages from not complying with tax rules and other regulations. Because of that, firms in the informal sector may be competing with formal firms in a way that undermines growth (TNP2K, 20)

The appropriate policy response to encourage more formality is not to focus just on registration costs but also to increase the benefits of formality or make the existing benefits more evident to firm and to better enforce registration requirements (TNP2K).

### 3. The Dual Economy Models

This model suggests that informal firms and formal firms are fundamentally different (Laporta and Shleifer 2014). Informality is a byproduct of poverty. Informality firms are typically small, inefficient and ran by entrepreneurs with little formal education. The productivity of informal firms is generally too low to allow them to survive in the formal sector. Hence, informal firms are largely segregated from the formal economy. They produce different products, with different labor, capital and entrepreneurial inputs and they serve different customers.

The only real cure informally in the dual economy model is economic growth. Demand side factors play a large role in propping up the informal sector; goods produced by informal sector firms are purchased by informal sector employees. Economic growth, poverty reduction and rising income will bolster demand for formal sector products, resulting in the exit of informal firms. This

does not necessarily require policies that explicitly tax or punish informal firms for being informal. Instead, broad based economic growth should both reduce the size of informal sector and at the same time, encourage the formation and expansion of formal firms.

Overtime, workers in the informal sector will switch and move into the formal sector, reducing the adverse employment effects from the exit of firms and declining employment in the informal sector.

Based on the research done by team in vice president office, informality in Indonesia seems to be better explained by a combination of exclusion model and the rational exit model. Many firms we interviewed complained that the process of registration or certification, which can be expensive and time consuming, was often not worth the benefits of being registered.

## **2.6. Literature review on effect of business permit for MSEs**

There are some similarities study related to this topic. First, the article from the journal of development studies “on the short – and medium – term effects of formalization: panel evidence from Vietnam”. This article concludes that: first, switching firm perform better than informal non switching firms; second, becoming formal leads to further increase in switching firms’ profit and value added; third, the benefits of formalization materialize in the short term and persist over time; the last, the benefits of formalization run through channel such as better access to powered equipment, increased customer base, more advertising, and higher business association membership. Yet, formalization does not seem to improve access to credit or increase for formal loan.

Second, Miriam Bruhn and David McKenzie on their research about “entry regulation and the formalization of microenterprises in developing countries”. Their research conclude: there are several compelling reasons to attempt to bring larger and more profitable informal firms into the formal system. First, the need of most developing countries to widen the tax base is likely to include a public rationale for collecting taxes from relatively well-off owners of informal firms and for the revenue collected from them to justify the costs of formalizing. Second, these larger and more successful informal firms are more likely to be the ones competing with formal firms for customers. Third, policymakers should increase the enforcement of the simplified rules and perhaps to experiment with innovative approaches to encourage suppliers or customers to demand formality. The last, policymakers should build rigorous impact evaluations, in order to measure whether any new efforts are achieving their desired goals.

Third, Ayu Lestari Nadela research is about “penerapan izin usaha mikro dan kecil di kecamatan pekanbaru” (the implementation of IUMK in Pekanbaru’s district). The research concludes: the implementation of the business permit (IUMK) in Tampan District from the side of organization management had run well, in implementing the business permit the Tampan District faced some problem that caused it not run well i.e. lack of socialization that should be done from all the stakeholders or the existence of a fictitious business, and the number of companions is still less than the number of businesses that need to be accompanied.

Next is, Yao Wang, 2016 on its research “what are the biggest obstacles to growth of SMEs in developing countries? – An empirical evidence from an enterprise survey”, the result of the research is SMEs are drivers of economic growth and job creation in developing countries. The papers use the enterprises survey from the world bank which covers data from 119 developing countries to investigate the biggest obstacles SMEs are confronting and determinants that influence the obstacles as perceived by enterprises managers. The results show that SMEs perceive access to finance as the most significant obstacle which hinders their growth. The key determinants among firms’ characteristics are size, age and growth rate of firms as well as the ownership of the firm. The role of the state in financing SME is particularly intriguing. External reasons also examined, it is shown that the main barriers to external financing are high costs of borrowing and a lack of consultant support.

Last but not least, Jasra et all, 2011 on their research about “determinants of business success of small and medium enterprise” resulted that the success of SMEs depends on number of factors. This study examines the role of key factors in the success of SMEs in Pakistan. The study concludes that there is a significant relationship between business success and its determinants. The result shows that financial resources are the most important factor in the success of business perceived by small and medium enterprises.

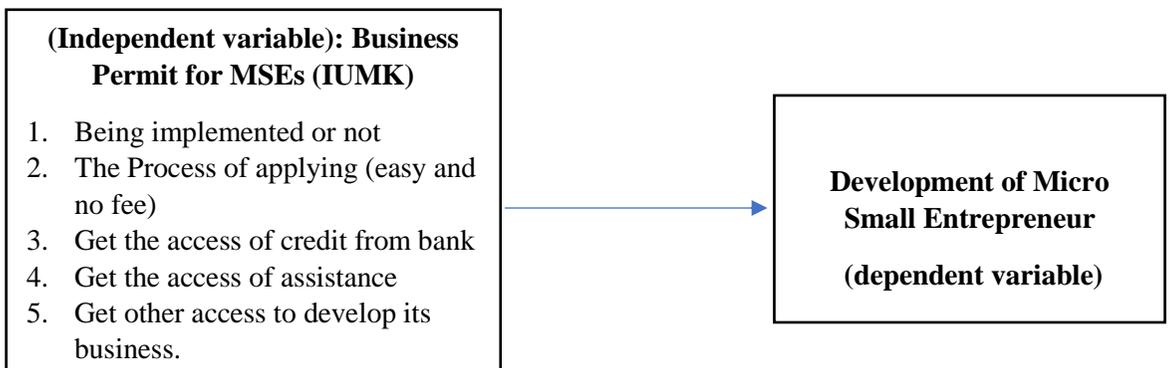
## Chapter 3: Research Design

This chapter entails the conceptual framework and the research methodology including: research design, data collection, and data analysis. An explanatory method will take to explain the findings of the research that the business permit for MSEs (IUMK has been implemented and the effect of

having business permit (IUMK) for MSEs by using secondary data taken from ; policy documents regarding with business permit for SMEs; and other resources such as journals, books, publications and online reliable sources of information.

### 3.1. Analytical Framework and Hypothesis

Figure 1. Analytical framework for the study



According to figure above, the analytical framework for this study is (shown in figure 3.1) the effect of implementing business permit for MSEs as an independent variable and development of micro and small entrepreneur as

dependent variable. Where the result of the research could be interpreted later in the analysis and research findings. Hence, this study proposes to explain the studies about the effect of having business permit (IUMK) to Micro and Small Entrepreneur in developing its business.

To find further answers to the problems that exist, the results should be tested by presenting the research hypothesis. The hypothesis put forward in this research is that *there is significant positive relationship between implementing business permit for MSEs to the micro and small entrepreneur development in districts of Indonesia*. It is expected that by having business permit, MSEs could develop and sustain their business and even higher the level of its business than before having it.

### **3.2. Methodology**

Research methodology is how to collect data by using collection techniques and data collection tools (Bailey, 1994). Methods of data collection can be structured by interviews, scaled questionnaires, in-depth interviews, discussions, document collection or other means. The method used in this study explained as follows.

The type of research used in this study is using qualitative research method with descriptive approach. Qualitative analysis methods for examining social research data without converting them into numerical format (Babbie, 2015). Besides, the approach is to explain, summarize the various conditions, situations, or variables that are the object of the research (Bungin, 2014). The

research method is using the perspective of quantitative approach with descriptive type, to analyze the data by describing the data.

This research approach done by using secondary data that tried to describe and know various data concerning the relationship between the roles of business permit and the success of SME's in running their business.

### **3.3. Research and methodology approach**

The research approach is the way the researcher sees and studies a symptom or social reality. The research approach is more about how researchers see and study a symptom or social reality, all are based on the basic assumptions of social science (Jannah dan Prasetyo, 2005, hal 42). In this study, researchers used a positivist approach, based on the researcher's understanding of the positivist approach as Neuman said that the positivist approach in social science can be defined as *an organized method for combining deductive logic with precise empirical observations of individual behavior in order to discover and confirm a set of problematic causal laws that can be used to predict general patterns of human activity* (Neuman, 1997, hal 82). Neuman in the book Bruce A Thyer argues that every theory in the social sciences is a system of ideas and abstractions that compact and organize various human knowledge about the social world so in order to facilitate the human understanding of the social world (Thyer, 1997, p. 37).

The positivist approach prioritizes validity, reliability, and objectivity (Hidayat, 2006, p. 136). This approach used by researchers to achieve a deep

and comprehensive understanding of existing social facts by deriving the existing initial theory. Through this positivist approach, researchers do not want to quantitatively measure the strength of the relationships that exist in the factors that affect the policy implementation related to business permit for Micro and Small Enterprises. However, its purpose is to know deeply about the policy that implemented in society through the secondary data.

### **3.4. Research Characteristic**

Next is about the research characteristic. Characteristics of qualitative research based on Babbie, 2015 are:

- a. Emphasis on seeing the world from the eyes of the participants;
- b. Strive to make sense of phenomena in terms of the meanings people bring to them;
- c. Holistic emphasis studying the person, group and culture in the natural setting;
- d. Qualitative research different assumption or approach than quantitative research.

Moreover, according to Taylor & Bogdan, 1984 qualitative research has a special characteristic of the following approaches and processes,

- a. inductive, that is based on logical procedures that originate from a special proposition as a result of observation and ends on a general conclusion;
- b. look at setting and human as an interconnected unity that is studying human beings in the context and situation in which they are located;

- c. understand human behavior from their own point of view, this is done by empathizing with the people being studied in an attempt to understand how they see things in their lives;
- d. more concerned with the research process than the results of research, not the absolute understanding sought but the deep understanding of social life;
- e. emphasizing on the validity of the data so as to emphasize the empirical direction, the research is designed thus the data obtained really reflects what is done and said by the researcher;
- f. humanistic, that is personally to understand the person being studied and participate in experiencing what is experienced by the person researched in their daily life;
- g. all aspects of social and human life are considered valuable and important to understand because they are considered to be specific and unique.

Hence, from this research the readers will know about the condition of micro and small enterprises especially in Indonesia, whether they already implement the new policy related to business permit and know the effects of having the business permit for them.

## **Chapter 4: Data Analysis & Findings**

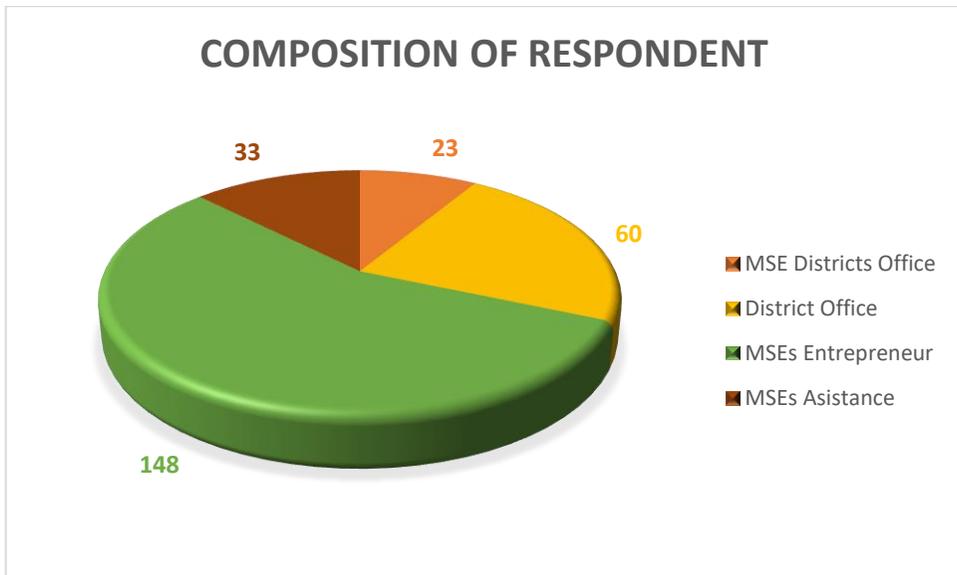
The model of this research as stated previously is qualitative. Viewed from the perspective of the phenomenon, this research based on naturalist with information taken from the perspective of the subject experiences. The subject of this research is the micro and small entrepreneur or the owner of the MSEs in some districts of Indonesia. The data used in this study is the secondary data, obtained from the depth interviewed done directly by the research team of Micro Small and Medium Enterprises unit, Deputy Assistant for improvement and welfare development especially in the field of business improvement and development in Vice Presidential Office under Ministry of State Secretariat Republic of Indonesia, collected from year 2015 – 2017 in 23 district from 11 provinces.

### **Data Analysis and Findings**

First of all, as the qualitative research, the data collection of this research will emphasis on observation and interpretation (Bobbie, 2015) from the secondary data that had been done by team from Deputy Assistant for improvement and welfare development especially in the field of business improvement and development.

The first part that will be seen is based on the first research question about the implementation of business permit (IUMK) which also states in the legal base (presidential regulation and ministry of home affair regulation). The respondents consist of elements with composition as follows:

**Figure 2. Composition of respondents**



From 23 district and 11 provinces the data shown, the compositions are:

a. MSEs Municipality office

The legal base of this business permit (IUMK) stated that MSEs municipality offices is the representative from the government controlling directly about the implementation of this business permit through each districts officers. The respondents are 23 MSE municipality offices.

b. Districts office

District office through head of district had important role in succeeding the implementation of business permit (IUMK). The head of district and the appointed staff will be in charge of all the process from the beginning until the one script of business permit (IUMK) released and taken to the small and micro enterprises. The respondents are 60 Head Districts.

c. Micro and small entrepreneur

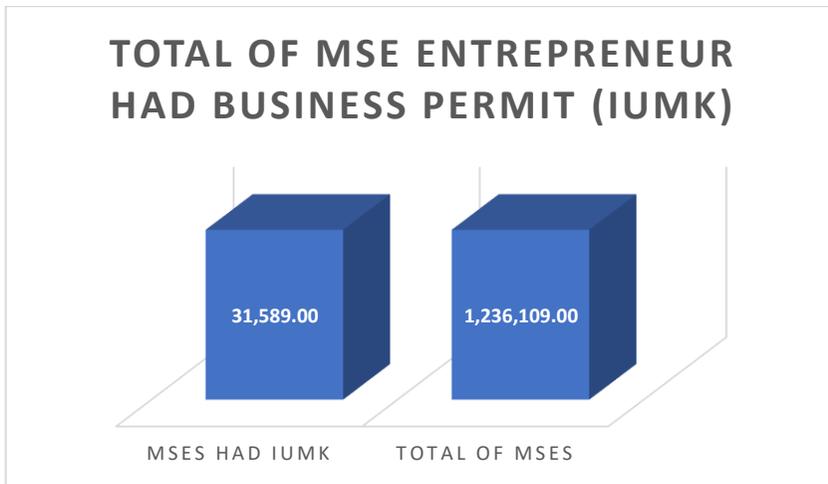
As the main actor of this research, micro and small entrepreneur is the person that will process and receive the business permit (IUMK) for their business sustainability. The respondents are 148 person from 23 sub-districts. Most of them are conducting in the trading sector especially food and beverage.

d. Business Assistant for MSE

As the part of the development of a business for both micro and small enterprises, he or she really needed to assist its business in each districts. However, due to the limitation of the budget from each province, not all districts has business assistance. The respondents consist of 32 respondent take from 23 districts.

Moreover, the figure below shown about total of micro and small entrepreneurs that had business permit (IUMK). Data for this figure taken from 11 province and 23 districts (data taken from each MSEs sub-district Office).

**Figure 3. The total of MSE entrepreneur that had business permit**



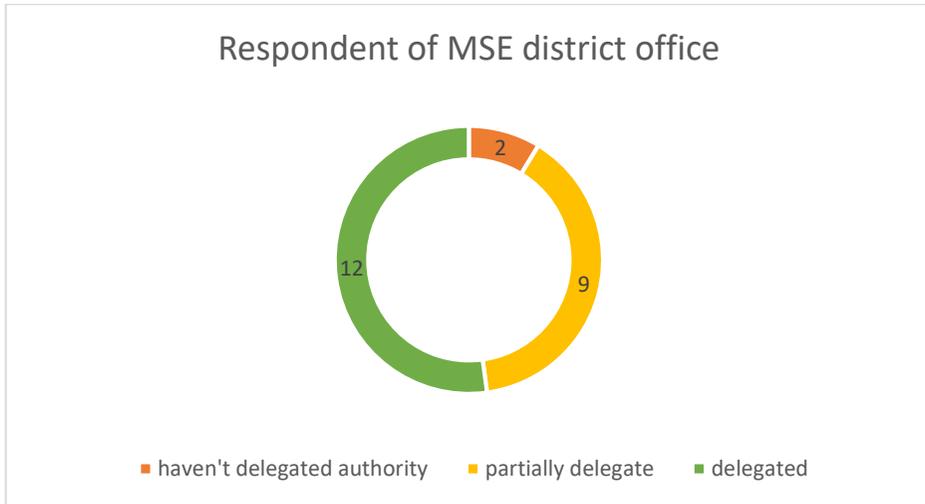
There are 1,236,109 person of MSE taken from 23 district, only 2.56% or 31,589 of them having business permit called IUMK during 2015 – 2017. While the rest still had not implemented it. In other words, still few of them that had been implemented the business permit (IUMK). Some reasons may arise such still on the socialization process, had not been delegated the authorization to the head of district or there was a case that a district just knowing about this business permit (IUMK).

Furthermore, this research will conduct to four analysis from this topic as follows:

#### **4.1. Analysis of MSEs Municipality Office response due to Business Permit (IUMK) Implementation**

Figure 4 below will show the first analysis taken from the response from Micro and Small District Office from 23 districts.

**Figure 4. Respondent of MSE District Office**



As mentioned previously, based on presidential regulation number 98 year 2104 about business permit for MSE, MSEs Municipality office is the representative of the central government that will give the authorization of the business permit (IUMK) to the head of district. Then as seen from the figure, from 23 respondent of MSEs Municipality Office: 12 district (52.17%) had been delegated; 9 district (39.13%) still partially delegated and 2 district (8,7%) still had not been delegated yet. The two district that not been delegated yet is Pontianak and Bandung. The nine respondents that still partially delegated, the reason was they only delegated the authority of licensing micro businesses to the district level, while small businesses are still at the district level. On the other side, 12 districts had been delegated the authority of business permit (IUMK) to head of districts.

Further information that gathered from the report of implementation of business permit (IUMK) that done by the Deputy Assistant for improvement

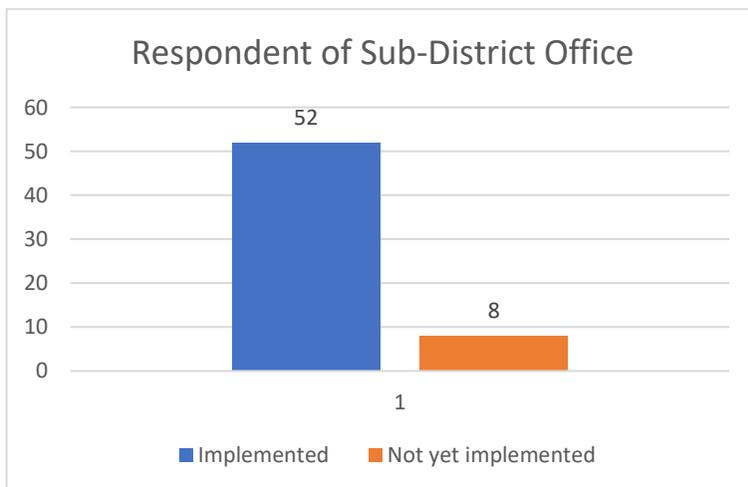
and welfare development are:

- a. The Municipality Government views that the issuance of IUMK for free will have an impact on decreasing Regional Original Income and District / city governments generally do not fully oversee the implementation of IUMK, such as the lack of orderly administration of micro.
- b. Small business actors in their regions and do not support infrastructure facilities.

#### **4.2. Analysis of District Office response due to Business Permit (IUMK) Implementation**

The second part of the analysis will be about response from District Office that had issuance the Mayor's regulation due to business permit (IUMK) implementation. Respondent that implementing the regulations about IUMK (business permit) are 60 head of district from 23 sub-districts. The result is as shown in the figure below:

**Figure 5. Respondent of Sub-District Office**



From 60 respondent, we will classify into two category, issued and not yet issued the mayor's regulations by each head of districts. The 52 respondent (86.66%) already issued it, while another result there is eight respondent (13.33%) that not issued it yet. From eight respondent, two respondent from Bandung and Pontianak had not released the issuance of the Mayor's regulation regarding IUMK and six respondent still not yet carrying out socialization of it and lack of the infrastructure to do the business permit (IUMK).

Additional information related to 52 respondent that already issued it are as follows:

- a. Districts officers asked additional requirements such as being asked to attach a land certificate, which not being stated on the provisions in presidential regulation number 98 year 2014;
- b. There are limitation of the validity period of IUMK, which not stated in the legal based;
- c. The District Officers have not committed to be proactive in promoting this business permit.

#### **4.3. Analysis of MSEs Entrepreneur response due to Business Permit (IUMK) implementation**

In this part, we will see response from micro and small entrepreneur due to the business permit, which divided into four part: first is about perception of micro and small entrepreneur towards the process in applying

the business permit (IUMK). Second is about perception of micro and small entrepreneur towards the fee in applying the business permit (IUMK). Third is about total micro and small entrepreneur that had the business permit (IUMK). Fourth is about impacts or effects on having business permit (IUMK) for them.

#### **4.3.1. Perceptions of micro and small entrepreneur towards business permit (IUMK) processes**

Business permit called IUMK been released since end of 2014 but most of the districts started to proceed it at the beginning of 2015. Next from figure six will show about the response of micro and small entrepreneur towards the process in applying the business permit (IUMK) as follow,

**Figure 6. Response from MSE about procedure**



Based on the figure above, there are 148 respondents from 23 districts. The 109 respondents (73.65%) said business permit (IUMK) processes is easy and 39 respondents (25.35%) said still not easy. However, here we could see

that the purpose of this policy almost succeeded. Because as we knew from the legal based regulation about business permit (IUMK) for micro and small entrepreneur stated that, this business permit's processes is easier especially compared to previous permit. Just one day service (after completing all requirements), but if the MSE entrepreneur still could not complete all the requirements then the process could be more than a day.

Besides, if the head of district not available in the office (due to business trip or other things) could made the process longer, because the one manuscript of permit needs head of district's signature. The fastest process even done in just few hours, because all the procedure used online systems. Hence, in some districts that still lack of infrastructure such lack of internet service or lack of computer become the obstacles of this policy.

#### **4.3.2. perceptions from MSE about the business permit's fee**

After knowing that the process is easy, then we will see about the fee in processing this business permit, since the basic legal of this permit stated that no free of charge for MSE entrepreneur in applying it.

**Figure 7. Response from MSE about the permit's fee**



As the result, from 144 respondent that implemented IUMK said there is no fee of charge in proceeding the permit. This means that, all the districts officers had applied what stated in the legal based about IUMK, there is no fee in applying it. Furthermore, this could be as the good sign for the development of micro and small entrepreneur particularly. Because as stated in the theory of formal sector that the exit rational model explained due to the high cost in formalizing its business then made them avoid to apply the permit.

### **4.3.3. MSEs Entrepreneur that had Business Permit (IUMK)**

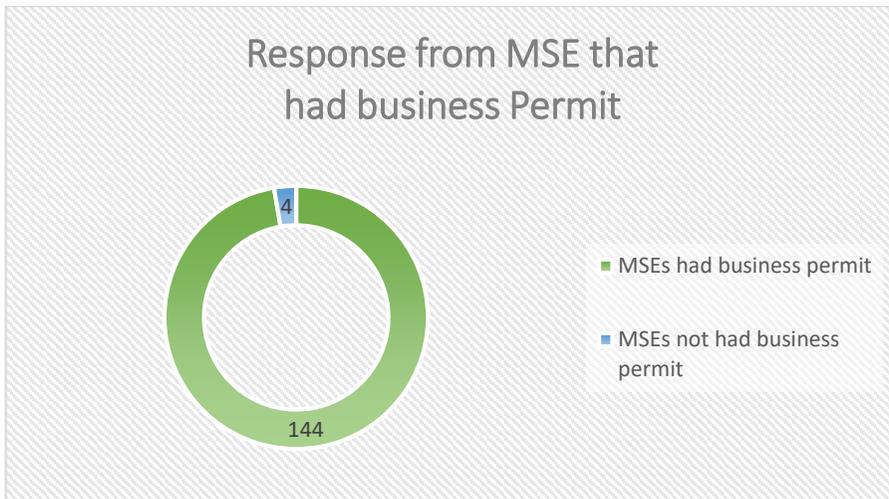
Furthermore, we will see micro and small entrepreneur that had business permit (IUMK). As the result from 23 districts, it shows that the

number of MSEs that been surveyed already have IUMK and some still do not have IUMK around the area, can be seen as follows,

**Table 4. MSE that been surveyed and had business permit (IUMK)**

<b>Province</b>	<b>District</b>	<b>MSEs that had been surveyed</b>	<b>MSEs that had Business Permit (IUMK) survey</b>
West Sumatera	Padang	9	9
South Sumatera	OKU Timur	4	4
Central Java	Sragen	1	1
	Pekalongan	4	4
	Semarang	4	4
	Karanganyar	20	20
	Magelang	6	6
Banten	Lebak	12	12
	Serang	6	6
West Java	Sukabumi	3	3
	Bandung City	3	3
	Subang	14	14
	Cimahi	16	16
	Bogor	7	7
	Bandung Barat	4	4
East Java	Malang	9	9
DIY	Bantul	4	4
Nusa Tenggara Barat	Lombok Tengah	2	0
	Lombok Barat	2	0
Bali	Gianyar	10	10
	Badung	2	2
West Kalimantan	Pontianak	3	3
Nusa Tenggara Timur	Kupang	3	3
<b>11 Provinces</b>	<b>23 Districts</b>	<b>148</b>	<b>144</b>

**Figure 8. Response from MSE had business permit**



As shown in the table or the figure above, during 2015 until 2017 there are 148 MSEs entrepreneur that had been surveyed from 23 districts and 11 provinces in three regions side of Indonesia (west, eastern and central region). From those 148 MSEs, 98% (144) of them already have business permit (IUMK). Based on the data, the highest district that had IUMK is in Karanganyar, the second highest districts is cimahi and the third highest district is Subang. This three highest rank district are located in part of west region Indonesia.

However, if we could see from the number of MSEs that had IUMK at the area, the third big rank are in Bantul, Pontianak and Kupang. Pontianak and Kupang are in central and eastern region, this means that the implementation of business permit (IUMK) had been done almost in all region part of Indonesia, not just centered in the west region. Hence, we could assume that the purpose of the government for them is running well and all the

stakeholder could made MSEs entrepreneur more aware than before about having the business permit as part of their business sustainability, to be precise as their basic business legal base.

Moreover, other district like OKU Timur and Lombok Tengah still not implement the business permit (IUMK), because the local government still trying to do the socialization about this business permit (IUMK). However, for the case in Bandung City, the local government has special programs for the MSEs, which they could apply the business permit through special application from their smart phone. This model made MSEs easier on applying it.

#### **4.3.4. Impacts of having Business Permit (IUMK) for MSEs**

After knowing districts that been implemented this business permit (IUMK), next we will see the impact of having it for micro and small entrepreneur. The response divided into two categories: impacts on access to capital and other impact such getting training and marketing link. As the result taken from the data, first we could see the effect on having business permit (IUMK) to MSEs entrepreneur as follows:

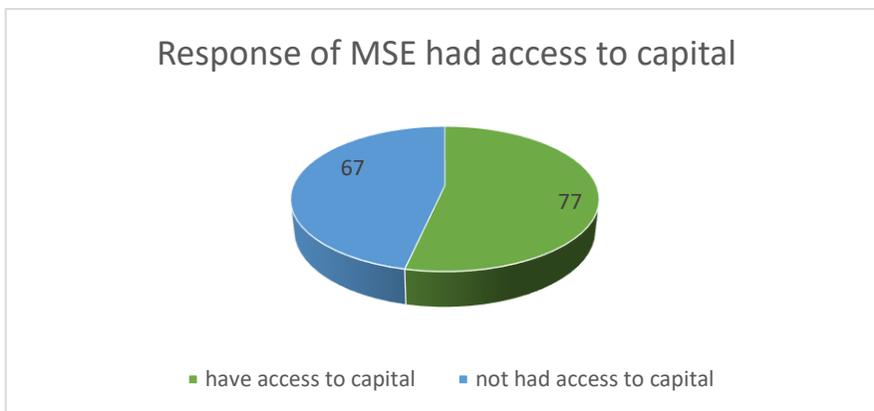
**Table 5. MSEs that had access to capital**

Province	District	MSEs that had Business Permit (IUMK) survey	MSEs that had access to capital
West Sumatera	Padang	9	0
East Java	Malang	9	9

South Sumatera	OKU Timur	4	0
Central Java	Sragen	1	0
	Pekalongan	4	
	Semarang	4	0
	Karanganyar	20	20
	Magelang	6	4
Banten	Lebak	12	12
	Serang	6	4
West Java	Sukabumi	3	0
	Bandung City	3	0
	Subang	14	14
	Cimahi	16	4
	Bogor	7	1
	Bandung Barat	4	1

DIY	Bantul	4	4
Nusa Tenggara Barat	Lombok Tengah	0	
	Lombok Barat	0	2
Bali	Gianyar	10	0
	Badung	2	1
West Kalimantan	Pontianak	3	0
East Nusa Tenggara	Kupang	3	3
<b>11 Provinces</b>	<b>23 Districts</b>	<b>144</b>	<b>77</b>

**Figure 9. Response of MSEs had access to capital**



As shown from the figure above, the access of capital especially credit from the bank. Based on the data, from 144 MSEs that been surveyed, 53.47% (77 respondent) of MSEs got access to capital, which could got credit from the

bank. While the rest 46.53% (67 respondent) did not had access to capital.

Moreover, there are additional information that been gathered. From 77 respondent there were other reasons that they got access to capital, the reasons were:

- a. In accessing the capital from the bank, there is no requirement on having this business permit (IUMK), since bank had its own requirement in processing the credit for the MSE;
- b. The bank that will give credit ask additional requirement, for instance asked trade business permit for small entrepreneur.

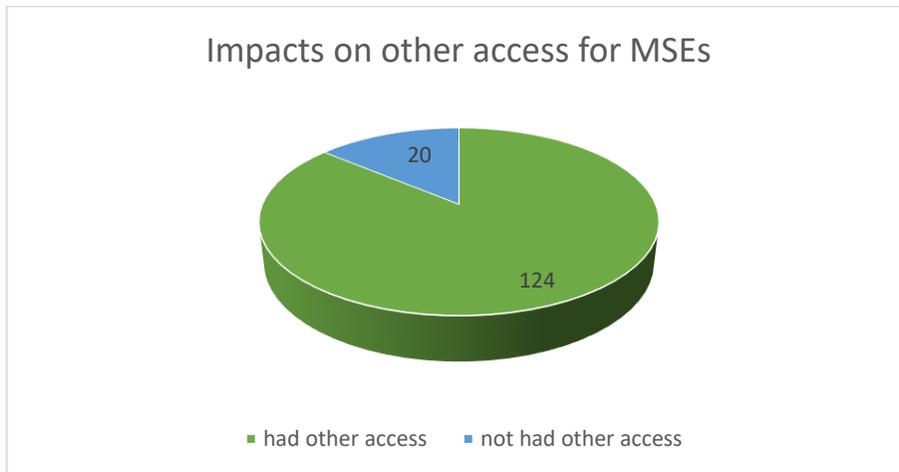
While from 67 respondent the reason that they did not got access to capital, because of they still afford to finance their business and they did not have any collateral that the bank needed it. Though, government in this case already had shared as the business guarantee through program credit for people (KUR). So, recently Indonesia's government really concerned about the development of micro and small businesses in order to increase the economic growth as well, then another policy that the government have program called Credit for People (Kredit Usaha Rakyat). The government will be give the share as the guarantor for them in accessing credit from the bank, especially national bank. Hence through this program, the interest rate that required lower than other credit program of its bank, which will make the MSE easier in paying the allowance or credit.

Second, another impact of having business permit (IUMK) for MSEs as follows:

**Table. 6 MSEs that had other access**

<b>Province</b>	<b>District</b>	<b>MSEs that had Business Permit (IUMK) survey</b>	<b>other benefit from having business permit (access to training and marketing)</b>
West Sumatera	Padang	9	8
South Sumatera	OKU Timur	4	0
Central Java	Sragen	1	1
	Pekalongan	4	2
	Semarang	4	2
	Karanganyar	20	20
	Magelang	6	6
Banten	Lebak	12	10
	Serang	6	6
West Java	Sukabumi	3	3
	Bandung City	3	3
	Subang	14	14
	Cimahi	16	16
	Bogor	7	6
	Bandung Barat	4	4
East Java	Malang	9	6
DIY	Bantul	4	4
Nusa Tenggara Barat	Lombok Tengah	0	
	Lombok Barat	0	2
Bali	Gianyar	10	3
	Badung	2	2
West Kalimantan	Pontianak	3	3
Nusa Tenggara Timur	Kupang	3	3
<b>11 Provinces</b>	<b>23 Districts</b>	<b>144</b>	<b>124</b>

**Figure 10. Other access for MSEs**



As the data shown above, 124 respondent (86.11%) had other access, for instance: get training or marketing by attending exhibition locally or nationally from the MSE district office or province level. While, 20 respondent (13.88%) did not got other access. The three biggest respondent as shown in the table above are district from Karanganyar, Cimahi and Subang. The least respondent is from Sragen.

Moreover, 124 respondent that had other access might have other access too such being listed in the Municipality Office' data base. Hence, this MSEs entrepreneur will get more attention from the related stakeholder. However, for the 20 respondent that could not have other access, because of there is still some weaknesses such as lack of coordination between district officers with MSE municipality officers.

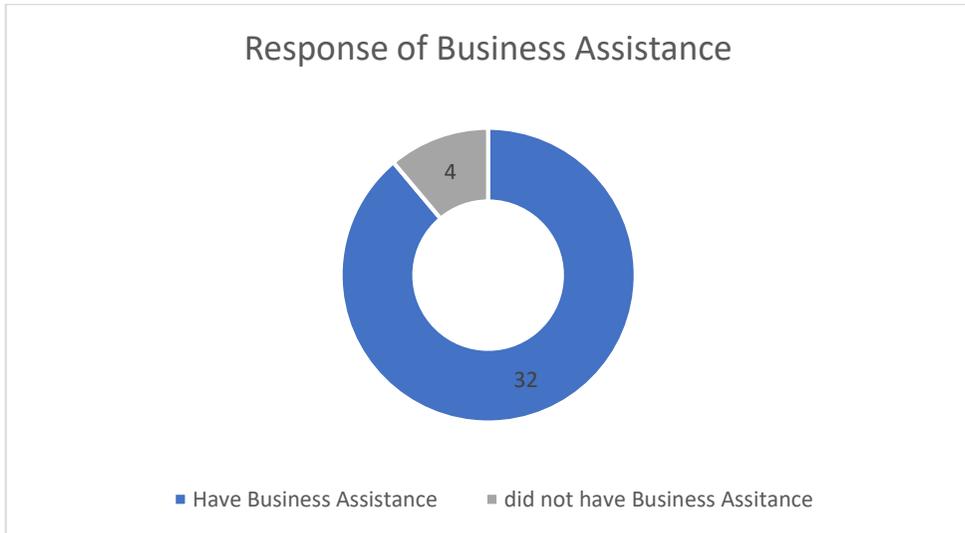
#### 4.4. Analysis of Business Assistant for MSEs response due to Business Permit (IUMK) Implementation

The last but not least is response from business assistant for MSE due to this business permit implementation in 23 sub-district. As the result we could see from the table below.

**Table 7. Business Assistant for MSEs**

<b>Province</b>	<b>District</b>	<b>MSEs that had been surveyed</b>	<b>Business Assistance</b>
West Sumatera	Padang	9	3
South Sumatera	OKU Timur	4	3
Central Java	Sragen	1	1
	Pekalongan	4	1
	Semarang	4	1
	Karanganyar	20	1
Banten	Magelang	6	1
	Lebak	12	2
	Serang	6	1
West Java	Sukabumi	3	3
	Bandung City	3	0
	Subang	14	2
	Cimahi	16	3
	Bogor	7	1
East Java	Bandung Barat	4	0
	Malang	9	1
DIY	Bantul	4	1
NTB	Lombok Tengah	2	1
	Lombok Barat	2	1
Bali	Gianyar	10	3
	Badung	2	0
West Kalimantan	Pontianak	3	2
NTT	Kupang	3	0
<b>11 Provinces</b>	<b>23 Districts</b>	<b>148</b>	<b>32</b>

**Figure 11. Response of Business Assistance**



Business assistant also has important role in running this business permit policy, because of its tasks in guiding the MSE entrepreneur to develop their business. As the result that can be seen from the figure above, from 23 districts only four districts that had not have business assistance yet, namely: Bandung City, Bandung Barat, Badung and Kupang. While, the rest (19 districts) have 32 business assistant for MSE. The districts that have many business assistant are Padang, OKU Timur, Sukabumi and Cimahi. While the rest only have one business assistant.

Moreover, some districts that have not business assistant happened because of the limitation on budget for pay their wages. While another reason might happened because of the lack of commitment from stakeholders both in sub-district and districts offices level.

## **Chapter 5: Conclusions and Recommendations**

As the last part after analyzing data, then the conclusions and recommendations from this research are as follows,

### **5.1. Conclusions**

As the conclusions of this research, first of all from the first respondent which is MSE municipality offices. The majority of MSE municipality or cities offices that had been visited have carried out business permit (IUMK) policies, but still not optimal because of constraints such as lack of infrastructure and perceptions of declining local revenue. Besides, there are regulatory constraints that made MSE municipality offices still not responded to the IUMK policy or even part of them still maintains small business licensing authority, which right now based on the presidential regulation number 98 year 2014 the authority should be under district offices.

Second of all, from the second respondent which is Head of District. District officers responses to the IUMK policy have not been optimal, with indications that applicants are still being asked for additional conditions such as land certificates and restrictions on the validity period of IUMK. All of these indications are not stated in the regulation (presidential regulation number 98 year 2104).

Third of all, from the third respondent which is micro and small entrepreneur. The response from micro and small entrepreneur majority said

that this business permit (IUMK) is easier than previous business permit. However, from the effect of having this business permit still not affected especially for getting access to capital. But for other access such as get training, marketing access and business legality are really affected for them.

The last but not least, from the last respondent which is business assistance. The response from them based on the result almost 89% from 23 district has business assistance. Although the result on having access to capital for MSEs still not optimal, at least they have business legality, access to training and marketing. Hence, the working result from the business assistance are already good, though still not obtain the main focus which could have access to capital. While, there are still some sub-district that even have not has business assistance due to lack of budget for their wage.

In other words, we could conclude that based on this result then connecting to the informality theory, it is true that Indonesia informality model take exclusion and rational exit model. Because the micro and small entrepreneur concerned with the process of registration and the benefit after being formalized business. In this case, micro and small entrepreneur will passing through easy process of registration with free of charge, and they will have some benefit such as having training and getting marketing link. Nevertheless, some could have access in gaining their capital.

Overall, from all those findings from this research the writer believe that as the result of this research that there is *relationship between implementing business permit for MSEs to development of micro and small*

*entrepreneur in some districts of Indonesia, however there is still some weaknesses from the result of this research.*

## **5.2. Recommendations**

The recommendation for this research after knowing the results and conclusions previously will be as follows,

- a. The function of socialization, monitoring and evaluation as mandated in Ministry of Home Affairs regulation No. 83 of 2014 needs to be implemented and improved by both the Central and Regional Governments;
- b. It is necessary to harmonize legislation relating to licensing of micro and small businesses to eliminate overlapping permits for micro and small businesses;
- c. Local governments need to increase commitment in developing micro and small business actors by making micro and small business licensing facilities a part of priority policies through budget allocation for:
  - Facilities and infrastructure such as computers, internet networks and District Integrated Administrative Services offices;
  - HR readiness to support the IUMK process such as sub-district officials and Business Assistance;
  - Making programs and activities to encourage the issuance of IUMK such as district officials directly pro-actively collecting micro and small businesses in their regions to obtain IUMK.

### **5.3. Limitation of the study**

As the last part of this research and after knowing the result findings then the limitation of the study will be:

- a. To make this research more comprehensive in finding the result, then it should be done in every year for each district;
- b. To make this research more reliable, this research should have increase the amount of each respondents, again due to the limited data and other sources of data this research could not fulfill it.

Hopefully this research will be useful for some stakeholder that related to this topic. Though just micro and small entrepreneur, but if they are strong and well develop, could bring huge effect for a country in this case is for Indonesia.

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# 인도네시아 지역내 소기업을 위한 정형화된 사업으로서 사업허가 정책시행의 효과

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글로벌행정전공

소기업(MSE)에는 많은 사업적 요소가 있고, GDP 뿐만 아니라 노동력에 좋은 영향을 주기 때문에 소기업은 개발 도상국, 특히 인도네시아에서 중요한 역할을 하고 있다. 그러나 이 소기업들은 이들 사업 발전에 있어 어려움을 주는 여러 문제들에 여전히 직면해 있다. 그 문제들은 그들의 사업에 대한 면허가 없다는 것, 자본 자원과 국내/외 시장에 제한된 접근, 품질·디자인·포장과 같은 제품 개발의 제한, 그리고 낮은 기술의 활용이 있다.

이러한 문제들과 관련하여, 인도네시아 정부는 대통령 규제(번호 98 번 2014 년), 내무부 규제(83 번 2014 년)을 통해 소기업을 위한 사업 허가 정책을 만들었다. 이 정책은 인도네시아어로 Ijin Usaha Mikro Kecil (IUMK, having business permit) 불리우고, 이는 인도네시아의 소기업들이 사업 허가를 받는 절차에 대한 가이드라인이다. 서술적 분석을 활용해, 본 연구는 인도네시아 지역들의 소기업들을 위한 정형화된 사업으로서 사업허가제(IUMK)의 효과를 알아보는 것이 목적이었다.

연구 결과, 중소기업에 대한 사업 허가 정책 시행과 인도네시아의 23 개 지역에서의 중소기업가의 발전 사이에 관계가 있다는 것을 알게 되었다. 사업 허가를 얻음으로써 중소기업들은 등록 및 기록될 수 있고 이를 통해 훈련, 마케팅 연결, 심지어 은행이나 비은행권 기관으로부터 자본에 대한 접근이 가능했다.

주제어: 중소기업, 중소기업의 장애물, 정형화된 사업, 비공식 부문 이론  
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