

# The Role Of Local Government, SMEs and Cooperatives In Realizing A People's Economy In Indonesia

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## Abstract

**Purpose** – The populist economic system has been defeated by a liberal economic system that controls almost all countries, even though Indonesia has long known a populist-based economic system which pays attention to the culture of an Indonesian nation. Economic Democracy is taken from the values of the Indonesian Nation, the populist economic system has been in effect since 1998, at that time the government was determined to implement a populist economic system with the issuance of MPR Decree. Democracy is oriented towards development and various freedoms that are in favor of the interests of the people. people's economy is developed as an effort to further advance society.

**Design/methodology/approach** – The method used is descriptive research method because this research aims to obtain answers related to one's opinions, responses or perceptions so that the discussion must be qualitative or use descriptive words. Descriptive research tries to find appropriate and adequate descriptions of all activities, objects, processes and people.

**Findings and Discussion** – The results of the study show that the concept of populist economy is carried out as a development strategy that prioritizes the welfare of the Empowerment community. populist economy can be realized by rearranging political institutions at the district level. Thus the issue of people's economic development cannot be separated from political institutions at the district level. For this reason, it must create a conducive political climate for people's economic development. SMEs, cooperatives, local and central government, food security supports the running of several people's economic activities in Indonesia, when the economic crisis hit Indonesia, large companies experienced a downfall and many went out of business, while SMEs and cooperatives remained strong and even existed at that time.

**Keywords** - Community Economic System, Local Government, SMEs, Cooperatives

## Introduction

In Indonesia the people's economy must be the basic foundation of society to improve their standard of living and the government must ensure that its people can get decent jobs and be able to buy basic necessities. Decent work and strong purchasing power of the people are absolute conditions for economic growth. The people's economy lies in the size of the economic growth rate or the nominal amount of Gross Domestic Product (GDP). Therefore, the

government plays a major role in improving the welfare of its people by involving the people as a reliable resource and providing considerable opportunities for Cooperatives and Micro, Small and Medium Enterprises (MSMEs) as well as economic activities, the good people in the villages in the form of agricultural and fishing activities as well as other productive economic activities by protecting the people's economy from capitalist economic forces. For this reason, the government in this case must build elements or small parts in the community's economy that are directly related to meeting the basic needs of the community (Kader, 2018).

Cooperatives in Indonesia, according to the 1992 Law, are defined as business entities consisting of individuals or cooperative legal entities with the basis of their activities based on cooperative principles as well as a people's economic movement based on the principle of kinship. In Indonesia, cooperative principles have been included in Law No.12 of 1967 and Law no. 25 of 1992. The principles of cooperatives in Indonesia are more or less the same as the principles recognized by the international community with a slight difference, namely the explanation regarding SHU (Residual Business Results). The people's economy in a broader sense includes the lives of farmers, fishermen, hawkers, motorcycle taxi drivers and street vendors, whose economic interests can always be assisted or fought for more easily through cooperatives. It is these people's economic interests that receive less attention from economic policy makers. The cooperative forum formed in the villages is a forum for strengthening the people's economy. The people's economy, especially those in the villages, can be strengthened through cooperatives. This cooperative organization has a very big role in opening business opportunities for the community in the village, apart from being an agent for distributing community products, and a medium for providing consumer goods.

In the people's economy, placing the people's own economy is an economic activity or a business carried out by the common people. It is popular that independently, manages any economic resources that can be cultivated and mastered. Reflecting the mandate of the founders of the Republic contained in the 1945 Constitution, especially the principle of Economic Democracy, which means that production is carried out by all, for all, and under the leadership or ownership of community members. In an Economic Democracy, it is the welfare of the people that takes precedence, not the prosperity of individuals. Therefore, one of the big challenges facing the national economy in welcoming the new Indonesia is how to control and direct the concentration of the economy and control of national assets by adhering to the people's principles.

A populist economic system which implies a participatory economic system that provides as much access as possible in a fair and equitable manner for all levels society, both in the process of national production, distribution and consumption as well as increasing capacity and community empowerment, as well as in an implementation mechanism that always pays

attention to the function of natural resources and the environment as life support in order to realize just prosperity for all Indonesian people in a sustainable manner. The people's economy itself should be interpreted as all economic activities carried out by and for the benefit of the people, both in their positions as producers, traders and consumers.(Styaningrum, 2021).

The business world, including SMEs and cooperatives, is expected to be able to have high resilience and competitiveness, with the following characteristics: (a) having flexibility (flexibility), (b) having high productivity, and (c) being managed by applying management principles and modern economic principles. Cooperatives, state businesses, and private businesses (including small and medium enterprises) are expected to be able to carry out their respective functions and roles optimally in the national economy, in accordance with the mandate of Article 33 of the 1945 Constitution through the establishment of harmonious, harmonious and harmonious relations and cooperation and business partnerships. balanced and mutually beneficial.

SMEs and Cooperatives are able to become the backbone of the economy which is increasingly reliable, able to develop as a business entity as well as a people's economic movement that is healthy, tough, strong and independent as well as being an effective vehicle for mobilizing people's economic strength in all activities or economic sectors. After gradually emerging from the economic crisis, Indonesia is expected to be able to build stronger economic resilience based on: (a) a broader base of economic activity along with the development of reliable products with high added value, (b) a more complete balance of payments , (c) economic institutions that function more steadily and work efficiently and (d) human resource productivity increases, the work force becomes more educated and skilled and the role of professionals, technicians and management improve as specialization develops. Furthermore, in the next ten or twenty years it is hoped that independence will be achieved in financing Indonesia's development. This means that at that time the main source of economic investment was based on accumulation, accumulation and mobilization of capital flows (funds) from within the country. This does not mean that there is no flow of capital from abroad, including those seeking loans in the business world. However, foreign loans are not a determining factor for the health of the national economy. Thus investment development will take place in a sustainable manner and be rooted in the capacity of national resources with the broad participation of the community and the business world, including SMEs and cooperatives, so as to form economic resilience and reliability of national competitiveness.(Son, 2018).

## Literature Review

### A. Government Role

Indonesia has a government policy in terms of financing entrepreneurship called the People's Business Credit (KUR) program in accordance with Law no. 20 on addressing the lack of entrepreneurial access to obtaining credit or financing. The main objective of the People's Business Credit (KUR) program is to increase and expand bank services to productive entrepreneurs, increase the competitiveness capacity of entrepreneurs, encourage economic growth and employment.

The benefits of these regulations can be seen from two sides, namely from the side of the government as a regulator and from the side of entrepreneurs as objects of licensing. For the government, permits are needed to maintain public order and provide protection to the community at large. For entrepreneurs, permits should provide social and economic benefits. If a policy or regulation is not in accordance with expectations, of course the policy must be evaluated because with the evaluation input will be obtained related to the incompatibility of the policy with the expected performance.

The government policy in developing the MSME sector aims to increase the potential and active participation of MSMEs in the national development process, especially in economic activities in the framework of realizing equitable development through expanding employment and increasing income. (Tristiarto & Siswantini, 2021)

### B. Small and Medium Enterprises (SMEs)

According to Tambunan (2009:10), the definition and concept of SMEs differ according to each country. Therefore, it is indeed difficult to compare the importance or role of MSMEs between countries. There is no general agreement in distinguishing a micro and small business or a small business from a medium business, and the latter from a large business. Even in many countries, the definition of MSMEs differs between sectors, for example in Thailand, India and China, or even differs between government agencies or departments, for example; Indonesia and Pakistan.

Furthermore, in Indonesia the definition of MSMEs is regulated in the Law of the Republic of Indonesia Number 20 of 2008 concerning MSMEs. In chapter I (general provisions) article I of the Law, it is stated that Micro Enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria for micro-enterprises as stipulated in the Law. Meanwhile, small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or not branches of companies that are owned, controlled, or become part, either directly or indirectly, of medium or large businesses that

fulfill the following requirements: the criteria for small businesses as referred to in the law. Meanwhile, medium enterprises are productive economic enterprises that stand alone, carried out by individuals or business entities that are not subsidiaries or not branch companies that are owned, controlled, or become a part, either directly or indirectly, and Micro Enterprises, Small Enterprises or large enterprises that meet the criteria of medium enterprises as referred to in the law. In the law, the criteria used to define MSMEs as stated in article 6 are net worth or asset value excluding land and buildings for business premises, or annual sales proceeds. With these criteria, according to the law, a micro business is a business unit that has an asset value of at most Rp. 50 million or with a maximum annual sales result of Rp. 300 million; small business with an asset value of more than Rp. 50 million up to a maximum of Rp. 500 million or have annual sales of more than IDR 300 million up to a maximum of IDR 2,500,000,000.00; and medium-sized businesses are companies with a net worth of more than Rp. 500 million to a maximum of Rp. 10 billion or have annual sales of more than Rp. 2 billion 500 million to a maximum of IDR 50 billion (Tambunan, 2009:16).

The role of micro, small and medium enterprises (MSMEs) in the Indonesian economy can at least be seen from: (1) their position as a major player in economic activity in various sectors, (2) the largest provider of employment opportunities, (3) an important player in the development of business activities local economy and community empowerment, (4) creating new markets and sources of innovation, and (5) contributing to maintaining the balance of payments through export activities (KEMEN KUKM, 2005). Since the crisis hit this important position, not all of them have been successfully maintained so that economic recovery has not been optimal. Micro and small businesses generally have advantages in fields that utilize natural resources and are labor intensive, such as: food crop agriculture, plantations, animal husbandry, fisheries, trade and restaurants. Medium enterprises have advantages in creating added value in the hotel, finance, leasing, corporate services and forestry sectors. Large enterprises have advantages in the manufacturing, electricity and gas, communications and mining industries. This proves that in practice micro, small, medium and large businesses complement each other. So that by increasing the performance of MSMEs with locally produced materials without relying on imported materials it will strengthen the development of the national economy (Solikatun and Masruroh, 2018: Saheb, et al, 2018).

### C. Indonesian Cooperative

Cooperative According to Mohammad Hatta is a joint effort to improve the fate of economic life based on the principle of helping each other. Definition of Cooperative According to Law no. 12 of 1967 is an economic organization, which has a social character and is managed on a kinship basis. In Germany in 1988, the definition of a cooperative is an association whose

membership is not closed which has the aim of increasing the economic activity of its members by holding a joint business.

According to Law No. 25 of 1992, cooperatives are business entities consisting of individuals or cooperative legal entities based on cooperative principles as well as a people's economic movement based on the principle of kinship. Meanwhile, according to Law No. 17 of 2012, Cooperatives are legal entities established by individuals or cooperative legal entities, for the separation of the wealth of its members as capital to run a business, which fulfills shared aspirations and needs in the economic, social and cultural fields in accordance with the values and cooperative principles.

According to Law no. 25 of 1992 Article 4 explained that the functions and roles of cooperatives are as follows:

1. Building and developing the economic potential and capabilities of members in particular and society in general to improve their economic and social welfare.
2. Participate actively in efforts to enhance the quality of human life and society
3. Strengthening the people's economy as the basis for the strength and resilience of the national economy with cooperatives as its thundering figures
4. Trying to realize and develop the national economy, which is a joint effort based on the principle of kinship and economic democracy.

#### D. People's Economy

The people's economy is synonymous with the Pancasila Economy, namely an economy driven by the principle of optimizing the utilization of natural resources, technological resources, capital resources, existing human resources (executors and experts) for the greatest benefit of the common people.

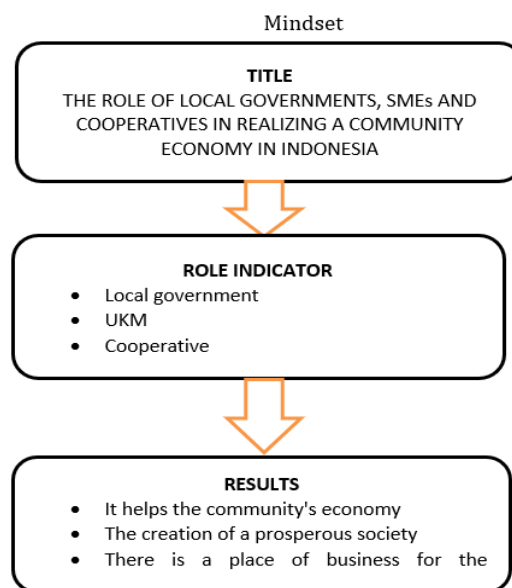
The populist economic system has been in effect since 1998, then the government was determined to implement a populist economic system by issuing MPR RI Decree No. IV/MPR/1999, concerning the GBHN which states that Indonesia's economic system is a populist economic system. The characteristics of the Populist Economic System are as follows:

1. Relying on a fair market mechanism with the principle of fair competition.
2. Paying attention to economic growth, the value of justice, social interests and quality of life.
3. Able to realize environmentally sound and sustainable development.
4. Ensure equal opportunity in trying and working.
5. There is protection of consumer rights and fair treatment for all people.

People's economy (economic democracy) is a national economic system structured as a joint venture based on the principle of kinship, in which production is carried out by all, for all, under the leadership or supervision of community members with the aim of increasing the ability of the community (the people) to control the course of the wheels of the economy (Baswir, 1993).

## Methods, Data, and Analysis

The research method is a scientific method that is used to obtain data with a specific purpose. (Lasa, 2009:207). The scientific word in the Big Indonesian Dictionary (KBBI) has a scientific meaning or fulfills the requirements (rules) of science so that its truth can be accounted for. The author uses a descriptive research method because this research aims to obtain answers related to one's opinions, responses or perceptions so that the discussion must be qualitative or use descriptive words. "Descriptive research tries to find appropriate and sufficient descriptions of all activities, objects, processes, and people" (Sulistyo-Basuki, 2010: 110). Table 1: Description of Variables Used in the Research framework.



## Results

The people's economy is one of the economic systems that in Indonesia was able to withstand the storm of the economic crisis that this country experienced in 1997. Some of the general foundations that underlie the existence of the populist economic system to date are because it is supported by small and medium enterprises (SMEs).

Empowerment of cooperatives and SMEs also faces challenges to play a role in overcoming socio-economic problems, such as providing employment and dealing with them. The government's role in building cooperatives in Indonesia includes helping to grow institutions, as a capital facilitator, providing training in operations and marketing management. Local governments are expected to play an active role in their respective regions in absorbing investment, by offering competitive incentives, efficient services, bureaucratic facilities, good industrial support systems, adequate infrastructure, and other facilities that can attract investors. Development of strengthening resilience with a household food development approach, development management approach, commodity development factors, household affordability of food, changes in family behavior towards food.

The advantages of the people's economy are:

1. Protecting the common people from unequal competition with large capital owners
2. More able to improve the welfare of the people at large
3. Reducing the gap between the rich and the poor
4. Creating a synergistic relationship between large capital owners and the general public.

## Limitation

This research has limitations, namely, in this study only an outline explanation because this research uses literature. For future researchers, it is hoped that they can explain in detail and in more detail, both for the main discussion or the discussion used for comparison. It is also expected to be able to find further literacy regarding the concept of populist economy.

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