

Volume: 3  
Number: 3  
Page: 571 - 576

**Article History:**

Received: 2022-06-06  
Revised: 2022-10-09  
Accepted: 2022-11-11

**THE ROLE OF SMALL AND MEDIUM MICRO ENTERPRISES  
(MSMEs) IN ECONOMIC DEVELOPMENT IN BANDAR LAMPUNG**

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**Abstract:**

Micro, small and medium enterprises occupy a strategic position to accelerate structural changes to improve the standard of living of many people and are a place for joint business activities for producers and consumers. The Indonesian economy will have a strong foundation if MSMEs become the main productive and competitive actors in the national economy. The importance of the role of MSMEs, the purpose of this study is to determine the role of MSMEs and the problems faced by MSME business actors in economic development. This type of research is a case study research with a qualitative approach. Respondents in this study were SMEs in Bandar Lampung. Data sources are obtained through primary and secondary data with data collection techniques using interviews, observations and documents. The data analysis technique uses research data processing by listening, selecting data, analyzing data, analyzing data and concluding results. The results of this study are that the role of MSMEs is expected to expand the provision of employment opportunities, make a significant contribution to economic growth, and evenly increase incomes, as well as increase the competitiveness and resilience of the national economy. MSMEs face declining sales/demand, difficulty and high cost of raw materials, and hampered operational distribution, capitalization, and production. This study suggests that micro and small businesses are expected to adapt to current technology to increase product competitiveness and optimize the potential of financial institutions that can be an alternative source of funds for rural MSMEs.

**Keywords:** MSMEs, National Economic Development.

Cite this as: HAYATI, S., FATARIB, H. (2022) "The Role of Small and Medium Micro Enterprises (MSMEs) in Economic Development in Bandar Lampung." International Journal of Environmental, Sustainability, and Social Sciences, 3 (3), 571 - 576.

**INTRODUCTION**

As a developing country in economic development, Indonesia does not escape development planning in its efforts to increase economic growth and people's welfare (Hariyono, 2010). In development planning, the stakeholders of each region can determine the strategic preparation process so that it can take place in a participatory manner. As mandated by Law no. 25 of 2004 concerning the National Development Planning System, the community is an important part of the existing stakeholders. The community is involved as a form of planning environmental mapping because the community is the one who knows best about the condition of the environment.

The more developed a country, the more educated people, and the more unemployed people, the more important the entrepreneurial world is felt. The development will be more stable if entrepreneurs support it because of the government's limited capacity. The government will not be able to work on all aspects of development because it requires a lot of budget, personnel, and supervision. Therefore, entrepreneurship is development potential, both in the number and quality of entrepreneurship itself. With an intention or desire to become an entrepreneur, it will be a step at least as hope for realizing equitable development and community welfare (Putra, 2016).

Micro, Small and Medium Enterprises are the largest group of economic actors in the Indonesian economy. They have proven to be a safety valve for the national economy in times of crisis and a dynamist of economic growth after the crisis. The economic structure dominated by large-scale enterprises with very fragile performance has taught Indonesia a lesson from the economic crisis that Indonesia had to pay a heavy price for in 1997.

There are several lessons to be learned from the economic crisis. First, Economic development that is not based on its strength but relies on debt and imports is very vulnerable to changes in external factors. Second, large-scale enterprises dominate the economic structure, which is insufficient to produce a solid socio-economic structure, even though it is very fragile when a crisis occurs. Third, MSMEs make concrete manifestations of people's economic activities that rely on their strength as a business group that can become a buffer when the Indonesian economy is hit by a crisis (Singgih, 2007).

Micro, Small and Medium Enterprises (MSMEs) are community entrepreneurs who tend to survive and even increase in number during the monetary crisis (Putra, 2016). MSMEs are a choice for the community because the invested capital is still affordable in opening the MSME business. According to information in the field, MSMEs can be used to help improve the welfare of the surrounding community because the community can open up job opportunities for themselves and the surrounding community. In line with Ashari (2006), by the characteristics of their business scale, micro and small businesses do not require too large a capital. However, these MSME actors have problems that MSMEs face, such as declining sales/demand, difficulty and high cost of raw materials, operational distribution, capitalization, and production.

Despite the small capital requirement, this huge business unit causes a lack of interest in large formal banking institutions to finance micro/small businesses because the transaction costs are very high. In addition, formal financial institutions generally treat small businesses the same as medium and large businesses in applying for financing, including covering adequacy of guarantees, capital, and business feasibility (requirements 5-C). This requirement is considered very burdensome for micro/small business actors accessing formal banking institutions. Therefore, it is necessary to develop Microfinance Institutions that can support MSME business actors to realize their role in economic development. Based on the importance of the role of MSMEs in economic development, this study wants to know the role of MSMEs and the problems faced by MSME business actors in economic development.

**Micro Small and Medium Enterprises.** Micro, Small and Medium Enterprises or commonly abbreviated as MSMEs according to Law No. 20 of 2008 is a stand-alone productive business unit which is carried out by individuals or business entities in all economic sectors<sup>72</sup> and is an economic activity that has a basis from the community by very minimal capital affordability (Tambunan, 2012). According to the World Bank (2015), MSMEs are divided into:

- a) Micro business with 10 employees
- b) Small business with 30 employees
- c) Medium-sized business with up to 300 employees.

Micro, Small, and Medium Enterprises (MSMEs) are the largest group of economic actors in the Indonesian economy. They have proven to be a safety valve for the national economy in times of crisis and a dynamist of economic growth after the economic crisis. The undeniable reality is that MSMEs (Micro, Small, and Medium Enterprises) are the most strategic national economic sector and concern the livelihoods of many people so that they become the backbone of the national economy (Singgih, 2007).

**Development Economy.** Economic development is urgent in a country, especially in increasing income and improving people's welfare. In macroeconomic analysis, economic growth

is the rate of increase in per capita income which is described as a picture of a country's economy and the level of community welfare. The main goal of economic development is to increase the number of goods and services and job opportunities for the community (Sofyan, 2017). Therefore, Todaro & Smith (2003) state that the success of a country's economic development is indicated by three central values, namely (1) the development of the community's ability to meet their basic needs (sustenance), (2) increasing the sense of self-esteem (self-esteem) of society as a human being. Moreover, (3) increasing people's ability to choose (freedom from servitude) is one of the human rights. Economic development, in general, can be defined as a process that causes an increase in the real income per capita of a country's population in the long term, accompanied by improvements in the institutional system (Aryad, 2017).

## METHODS

This type of research is a case study research with a qualitative approach. Respondents in this study were SMEs in Bandar Lampung. Data sources are divided into 2, namely primary and secondary data sources. Primary data sources were obtained through interviews and observations with respondents. Meanwhile, secondary data sources are obtained through literature/library review documentation related to existing problems or constraints. Data collection techniques using interviews, observations and documents. The data analysis technique uses research data processing by listening, selecting data, analyzing data, analyzing data and concluding results.

## RESULT AND DISCUSSION

Micro, Small and Medium Enterprises (MSMEs) are strategically positioned to accelerate structural changes to improve the standard of living of many people and are a forum for joint business activities for producers and consumers. Economic development can be defined as every activity carried out by a country to develop economic activities and the standard of living of its people (Arsyad, 2017). The Indonesian economy will have a strong foundation if MSMEs become the main productive and competitive actors in the national economy. For this reason, the development of micro, small and medium enterprises needs to be the main priority of national economic development in the long term (Setyawati, 2009).

The role of MSMEs in the Indonesian economy can at least be seen from (1) their position as a major player in economic activities in various sectors, (2) the largest provider of employment opportunities, and (3) as essential players in the development of local economic activities and community empowerment, (4) creators of new markets and sources of innovation, and (5) their contribution to maintaining the balance of payments through export activities. Since the crisis hit this important position, not all of them have been successfully maintained, so the economic recovery has not been optimal. To achieve the target of economic development, MSMEs need to get attention. In the current condition of the Indonesian economy, it will not be easy to attract investment. For this reason, limited investment needs to be directed at efforts to develop new entrepreneurs (Setyawati, 2009).

The role of MSMEs in cultivating entrepreneurship is expected to expand the provision of employment opportunities, make a significant contribution to economic growth, equalize income increases, and increase the competitiveness and resilience of the national economy. However, based on the results of interviews with MSME actors, MSMEs face problems such as declining sales/demand, difficulty and expensive raw materials, and hampered operational distribution, capitalization, and production. The biggest problem that has occurred to MSMEs since the COVID-19 pandemic faced by MSME actors is the decline in sales so that buyers/demands for goods are quiet, and MSMEs are capitalized.

To overcome the problems above, strategic steps are needed to increase the competitiveness of MSMEs and develop MSMEs. The government has a strategic position in developing MSMEs through various policies that can support the development. The role of MSMEs as national economic development with multiple problems faced by MSME business actors, the Mayor of Bandar Lampung in supporting MSMEs. The Bandar Lampung City Government has prepared various assistance programs so that Micro, Small and Medium Enterprises (MSMEs) quickly rise from the impact of the Covid-19 pandemic. by providing convenience for business actors. The programs provided range from interest-free loans and assistance with tools and machines to business stalls. Even in dealing with capital problems for MSMEs, the City Government, in collaboration with Bank Mandiri, provides subsidies in the form of interest-free loans for MSME actors. The targets are snack, fried and angkringan businesses so that this can also improve the quality of human resources and integrate business development in the context of regional development.

Furthermore, the Bandar Lampung City Government distributed the Banpres for Productive Micro Business (BPUM), which was given as assistance to micro-business actors to continue their business in a crisis due to the pandemic, the National Economic Recovery Program. In addition to aid in loan subsidies, the Bandar Lampung City Government also provides stalls selling at Bung Karno MSME Park. Based on observations, it was found that the MSME Park Event took place regularly every weekend, Saturday and Sunday, and the enthusiasm of MSME actors and buyers was very high. So that business actors in Bandar Lampung can recover from the pandemic with the help of this UMKM Park. In addition, the Taman UMKM event still adheres to health protocols to prevent virus transmission, including controlling the emergence of new cases in Bandar Lampung.

Support for the Bandar Lampung City Government program to support the implementation of a people's economy to realize community development and welfare. The natural form of the populist economy is in the form of support for micro, small and medium enterprises (MSMEs) so that the production of MSMEs is not only marketed in the local market but also outside the region it is growing (Putra, 2016). The support the Bandar Lampung City Government provides to MSME actors is expected to have a positive impact. The community will participate in the program enthusiastically so that the role of MSMEs in regional and national economic development can be realized.

Another problem is the MSME capital in running and developing a business. The lack of capital is more experienced by micro, small and medium enterprises because they are individual businesses that only rely on limited capital from the business owner's side. Business owners have difficulty obtaining loans for business capital from banks due to administrative and technical problems that business actors cannot afford. The development of MSMEs cannot be separated from the role of MFIs (Microfinance Institutions) because MFIs are parties that are expected to be able to provide support to MSMEs in terms of capital. The financial services industry has a significant role in lending that is oriented towards the development of MSMEs.

The government has taken several steps: the People's Business Credit (KUR) with a credit/financing scheme for working capital and investment intended for MSMEs and Cooperatives in productive business fields. Departing from this phenomenon, one of the conditions for developing MSMEs is the empowerment of MFIs. Aspects of MFI empowerment include two aspects, namely regulatory aspects and institutional strengthening, which aims to encourage policies issued by MFIs to be more in favor of MSMEs, especially for capital accessibility. The empowerment of MFIs is carried out in a structured and sustainable manner, which can

encourage increased productivity and competitiveness of MSMEs and grow new solid entrepreneurs.

One of the financial institutions that can be utilized and encouraged to finance economic activities in rural areas where the majority of the population's businesses are in the micro-segment is Microfinance Institutions (MFIs). This institution has grown and taken root in rural communities but has not been used optimally (Ashari, 2006). In responding to the problem of limited capital and the government's diminishing fiscal capacity, it is necessary to optimize further the potential of financial institutions that can become an alternative source of funds for MSMEs in rural communities.

## CONCLUSION

MSMEs are the main productive and competitive actors in the national economy. For this reason, the development of micro, small and medium enterprises needs to be the main priority of national economic development. The role of MSMEs is expected to expand the provision of employment opportunities, make a significant contribution to economic growth, equalize income increases, and increase the competitiveness and resilience of the national economy. MSMEs face declining sales/demand, difficulty and high cost of raw materials, and hampered operational distribution, capitalization, and production. The biggest problem that has occurred to MSMEs since the COVID-19 pandemic faced by MSME actors is the decline in sales so that buyers/demands for goods are quiet, and MSMEs are capitalized. One of the financial institutions that can be utilized and encouraged to finance economic activities in rural areas where the majority of the population's businesses are in the micro-segment is Microfinance Institutions (MFIs). The suggestion in the research is that micro and small businesses are expected to be able to adapt to current technology in increasing product competitiveness and optimizing the potential of financial institutions that can be an alternative source of funds for MSMEs in rural communities.

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