



# MSME Categorization In Indonesia: Is It Potentially Problematic?

Henrycus Winarto Santoso<sup>(✉)</sup>, Noviaty Kresna Darmasetiawan, Made Siti Sundari, Raymond Lim, and Erisa

University of Surabaya, Surabaya, Indonesia  
henrycus@staff.ubaya.ac.id

**Abstract.** In Indonesia, MSMEs play a critical role in driving the economy through labor absorption and contribution to GDP. Therefore, MSME categorization has been through numerous processes of refinement in order to be implemented as intended to ascertain better empowerment by policymakers and provide unbiased objects for researchers. This paper aims to verify if enacting the latest Government Regulation of The Republic of Indonesia No. 7 of 2021 potentially creates problems such as a change in the number of enterprises for each MSME category. The descriptive analysis method was used to anatomize in-depth interpretation of previous and ongoing MSMEs categorization in the law object, and associated scholarly sources are provided through library research. Through microeconomic evaluation “before-after”, this paper conceives that implementing the law object encompasses potential problems such as a change in the number of MSMEs for each MSME category.

**Keywords:** government regulation · policy · evaluation · implementation · problematic

## 1 Introduction

Micro, Small, and Medium Enterprises (MSMEs) are considered the backbone of the Indonesian economy. Thus, the development of MSMEs is a strategic key in building the economy, coping with unemployment, and alleviating the poverty rate in Indonesia. The existence of MSMEs has proven to be a rigorous solution to the economic crisis in 1998 and has driven the national economy to gain strength. MSMEs contribute 99% of all companies, against 89% of the private sector workforce, and contribute 57% of the country’s GDP [1]. The Ministry of Small and Medium Enterprises Cooperatives noted that 64.2 million MSMEs in Indonesia contributed 61.07% to GDP, absorbed 97% of the total private-sector workforce, and could raise funds to 60.42% of total investment in 2020 [2]. It shows that MSMEs contribute more compared to previous years.

All these facts show the importance of MSMEs as the backbone of national economic strength. Although the number of MSMEs continues to grow, MSME development is always constrained by several factors. As a state organizer, the government has

a social responsibility to encourage the sustainability and development of MSMEs. The government has carried out various efforts to promote, empower, and protect MSMEs.

The Indonesian government has taken several actions to support them as concrete evidence of its contribution to its people. These efforts include issuing some regulations typically focusing on the empowerment of MSMEs. After eight years of Government Regulation No. 17 of 2013 enactment, the government issued Government Regulation No. 7 of 2021 regarding MSMEs' convenience, protection, and empowerment.

Even though some people consider the definition of MSME as clear and straightforward, it does contain ambiguity and can cause controversies regarding the classification of enterprises [3]. Even if it is clear, it can cause controversies regarding implementation. Implementing Government Regulation No. 7 of 2021 brings up some consequences to government policy, such as (a). Empowering existing enterprises, (b). Licensing for enterprises proposing licenses before enacting the government regulation, and (c). Licensing for enterprises that have not proposed licenses before enacting the government regulation.

The enactment of Government Regulation No. 7 of 2021 for the establishment or registration of enterprises that have not proposed license before the enactment of the government regulation, the criteria referred in article 35 paragraph (1). Then enterprises proposing licenses before the enactment of the government regulation will still be carried out according to the provisions of the laws and regulations before this Government Regulation comes into effect (Transitional Provisions of Article 140 point) b). Furthermore, to provide convenience, protection, and empowerment of MSMEs and the criteria for working capital as referred to in Article 35 paragraph (3), the criteria for annual sales results as referred to in Article 35 paragraph (5) are used. Article 35 paragraph 6: For businesses that have carried out activities prior to enacting this Government Regulation (existing enterprises): convenience, protection, and empowerment for MSMEs that meet the criteria for annual sales results as referred to in Article 35 paragraph (5).

Based on this background, the primary purpose of this research is to investigate the possibility of problems in the implementation of Article 35 paragraph 6 in government regulation number 7 of 2021 on existing enterprises. For this reason, the research question that will be answered in this paper is: what is the impact of implementing Article 35 paragraph 6 enactment of Government Regulation Number 7 of 2021 regarding the number of MSME business units that get the right to convenience, protection, and empowerment?.

## 1.1 Government Policy

A policy is defined as an action proposed by an individual, a group, or a government in a certain environment, giving constraint and opportunity to the policy proposed to use and deal with to achieve an objective or realize a certain target or purpose [4]. In addition, a policy is regarded as a projected program of goals, values, and practices [5]. Moreover, a policy as permanent and repeated behavior related to the business existing in and through government to solve the public problem [6]. There are three levels of policy, namely (a) public policy, the one becoming guideline or implementation instruction, either positive or negative, involving all corresponding areas or institutions; (b) implementation policy, the one elaborating public policy, for central level, government regulation about the implementation of the law; and (c) technical policy, the operational policy existing under

the implementation policy [7]. The government has the authority to make many policies. The term policy is used more frequently and broadly concerning the government's action and behavior of the state in general.

## 1.2 Benefits of Policy Evaluation

Evaluation is a key component of the policy cycle or the process of conceiving, developing, implementing, and modifying public policies [8]. Evaluation refers to measuring and assessing the impacts and merits of government policies, strategies, and programs. It determines the appropriateness, effectiveness, and efficiency of government policies and programs that contribute to policy improvements and innovation [9]. Evaluation helps determine the success of earlier steps in the policy development cycle, whether the program had the intended impacts and met its objectives, and whether things can be done better in the future [9]. Evaluation is a valuable activity.

A properly planned and executed evaluation positively impacts stakeholders such as government, agencies, public servants, and the community [9]. Evaluation beneficially increases the ability of government to achieve goals and increase public trust, more information to assist decision making, more efficient resource allocation, and many more. The evaluation also helps agencies build the organization's reputation to innovate and continuously improve. Evaluation for agencies can also be a solid basis for obtaining information on objectives and budget allocations. For public servants, evaluation can help develop skills and experience. Then with evaluation, civil servants can develop a more dynamic and creative work environment to improve performance. Last but not least, evaluation can be useful for developing better government services so that people can have more confidence in government programs due to efficiency, transparency, accountability, and well execution which results in benefits for the government, agencies, public servants, and the community [9].

## 1.3 Evaluation Types

There are three evaluations during different phases of the policy process: policy evaluation, policy implementation evaluation, and policy impact evaluation [10]. First, policy content evaluation is an evaluation that assesses whether the content clearly describes the policy, its implementation, and the rationale for why the policy will produce the desired change. Evaluating policies aims to support understanding of context, content, and implementation. Second, the evaluation of policy implementation is an evaluation that assesses whether the policy has been implemented in accordance with the plan. Implementation of a policy is considered an important component in understanding the effectiveness of a policy. Policy evaluations can provide important information about barriers and providers of implementation as well as comparisons between the different components of implementation. Third, policy impact evaluation is an evaluation that assesses whether the policy produces the expected effects and effects. In wound prevention, the expected impact can be a reduction in injury or wound severity. However, it is also important for short and medium-term results. In this paper, evaluation of the three types of evaluation refers to evaluating policy implementation [10].

## 2 Research Methods

This paper uses descriptive analysis, which utilizes the microeconomic evaluation “before-after” method to achieve the research objectives and answer the research questions [11]. Microeconomic evaluation “before-after” is a comparative study that identifies and compares particular outcomes before and after a program or event starts regarding the variables that may describe the situation of the individuals and organizations involved in the program. In this paper, the impact was estimated by reducing the data that reflect the situation after from the data that reflect the situation before. This paper limits the categorization of existing MSMEs based on annual sales criteria in which Government Regulation No. 7 of 2021 is the pole. In other words, the old program referred to categorization based on annual sales of Law No. 20 of 2008 and the new event referred to Government Regulation No. 7 of 2021 categorization.

## 3 Results and Discussion

Concerning the sustainability and development of SMEs, the Government of Indonesia has published many policies. The three regulations related to this paper are Law No. 20 of 2008, Government Regulation No. 17 of 2013, and Government Regulation No. 7 of 2021.

Regarding the empowerment of enterprises that already existed before government regulation number 7 of 2021 came into effect, the question arises: will the enactment of government regulation number 7 of 2021 result in changes in the number of MSME business units? If so, this will create potential problems in empowering MSMEs in Indonesia.

The total number of big enterprises and MSMEs as stated in the Law No. 20 of 2008 is equivalent to the total number of big enterprises, and MSMEs stated in Government Regulation No. 7 of 2021. Even though the number of enterprises existing after implementing Government Regulation No. 7 of 2021 remains the same, a change in the number of enterprises for each criterion potentially emerges due to modifications from previous and ongoing provisions.

The discussion will focus on article 35 paragraph (6) Government Regulation No. 7 of 2021, which recategorizes existing enterprises based on the annual sales criteria of article 35 paragraph (5) Government Regulation No. 7 of 2021, henceforth be referred to as new criteria. Previously categorized existing enterprises are assumed to be categorized based on annual sales criteria of Law No. 20 of 2008, which will henceforth be referred to as old criteria. The previous criteria of micro, small, medium, and large enterprises according to Law No. 20 of 2008 can be seen in Table 1.

For businesses operating before the Government Regulation No. 7 of 2021 comes into effect use, new annual sales criteria of micro, small, medium, and large enterprises according to Government Regulation No. 7 of 2021 can be seen in Table 2.

### 3.1 Big Enterprise Categorization

There is no difference in the number of large business units between classification according to old criteria and classification based on new criteria due to the similarity of criteria

**Table 1.** Law No. 20 of 2008 Enterprise Criteria

Type of Enterprise	Criteria	
	Net Worth (Million Rp)	Annual Sales (Million Rp)
Micro Enterprise	$NW \leq 50$	$S \leq 300$
Small Enterprise	$50 < NW \leq 500$	$300 < S \leq 2.500$
Medium Enterprise	$500 < NW \leq 10.000$	$2.500 < S \leq 50.000$
Large Enterprise	$10.000 < NW$	$50.000 < S$

**Table 2.** Government Regulation Of The Republic of Indonesia No. 7 of 2021 Enterprise Criteria

Type of Enterprise	Criteria
	Annual Sales (Million Rupiah)
Micro Enterprise	$S \leq 2.000$
Small Enterprise	$2.000 < S \leq 15.000$
Medium Enterprise	$2.500 < S \leq 50.000$
Large Enterprise	$50.000 < S$

**Table 3.** Categorization Of Big Enterprise And MSME

Type of Enterprise	Annual Sales (Million Rupiah)	
	Government Regulation No. 7 of 2021	Law No. 20 of 2008
Big Enterprise	$50.000 < S$	$50.000 < S$
MSME	$S \leq 50.000$	$\leq 50.000$

provision – companies with annual sales results of more than 50,000. Because the enactment of Government Regulation No. 7 of 2021 does not change the number of big enterprises and MSMEs (Tables 3 and 4).

### 3.2 MSME Categorization

The number of enterprises meeting the new criteria as Medium Enterprises will be less than those that meet the old criteria as Medium Enterprises. The enterprises that were previously categorized as Medium Enterprises (those that meet the criteria of  $2,500 < S \leq 50,000$ ) will partly be categorized as Medium Enterprises (i.e., those that meet the criteria of  $15,000 < S \leq 50,000$ ) in the new criteria, while others in the range of  $2,500 < S \leq 15,000$  will be included in the category of Micro and Small Enterprises (Tables 5 and 6).

**Table 4.** Results Of Big Enterprise And MSME Categorization

Type of Enterprise	Annual Sales (Million Rupiah)		Result
	Government Regulation No. 7 of 2021	Law No. 20 of 2008	
Big Enterprise	$50.000 < S$	$50.000 < S$	No Change in unit number
MSME	$S \leq 50.000$	$\leq 50.000$	No Change in unit number

**Table 5.** Categorization Of MSME, Medium Enterprise, and Small Enterprises

Type of Enterprise	Annual Sales (Million Rupiah)	
	Government Regulation No. 7 of 2021	Law No. 20 of 2008
MSME	$S \leq 50.000$	$S \leq 50.000$
Medium	$15.000 < S \leq 50.000$	$2.500 < S \leq 50.000$
Micro and Small	$S \leq 15.000$	$\leq 2.500$

**Table 6.** Results Of MSME, Medium Enterprise, and Small Enterprises Categorization

Type of Enterprise	Annual Sales (Million Rupiah)	
	Government Regulation No. 7 of 2023	Law No. 20 of 2008
MSME Result: No Change	$S \leq 50.000$	$S \leq 50.000$
Medium Result: Decreased by units having $2.500 < S \leq 15.000$	$15.000 < S \leq 50.000$	$2.500 < S \leq 50.000$
Micro and Small Result: Increased by units having $2.500 < S \leq 15.000$	$S \leq 15.000$	$\leq 2.500$

### 3.3 Micro and Small Categorization

Before enacting Government Regulation no. 7 of 2021, a company was classified as a Micro and Small Enterprise if the annual sales result was less or equal to 2,500 (:  $S \leq 2,500$ ). Meanwhile, after Government Regulation no. 7 of 2021 is enforced, the company is classified as a Micro and Small Enterprise if the annual sales result is less than or equal to 15,000 (:  $S \leq 15,000$ ) (Tables 7, 8 and 9).

Thus, the number of businesses classified as Micro and Small Enterprises at the time of enactment of Government Regulation No. 7 of 2021 will be more than when

**Table 7.** Categorization Of Micro and Small Enterprises, And Micro Enterprise

Type of Enterprise	Annual Sales (Million Rupiah)	
	Government Regulation No. 7 of 2021	Law No. 20 of 2008
Micro and Small	$S \leq 15.000$	$S \leq 2.500$
Small	$2.000 < S \leq 15.000$	$300 < S \leq 50.000$
Micro	$S \leq 2.000$	$S \leq 300$

**Table 8.** Results Of Micro And Small Enterprises Categorization

Annual Sales (Million Rupiah)	
Government Regulation No. 7 of 2021	Law No. 20 of 2008
$S \leq 15.000$	$S \leq 2.500$
Increased by units having $2.000 < S \leq 15.000$	

**Table 9.** Results Of Small Enterprises Criteria

Annual Sales (Million Rupiah)	
Government Regulation No. 7 of 2021	Law No. 20 of 2008
$2.000 < S \leq 15.000$	$300 < S \leq 2.500$
Increased, if there are more business in the range of $2.500 < S \leq 15.000$ than those in the range of $300 < S \leq 2.000$	
Constant, if there number of business in the range of $2.500 < S \leq 15.000$ is the same as those in the range of $300 < S \leq 2.000$	
Decreased, if there are fewer business in the range of $2.500 < S \leq 15.000$ than those in the range of $300 < S \leq 2.000$	

Government Regulation No. 7 of 2021 has not been enacted. The increase is equal to the number of businesses that have annual sales of more than 2,500 but less or equal to 15,000 ( $2.500 < S \leq 15.000$ ).

Prior to the enactment of Government Regulation No. 7 of 2021, a company was classified as a Small Enterprise if the annual sales are more than 300 but less or equal to 2,500 ( $300 < S \leq 2.500$ ). Meanwhile, after Government Regulation no. 7 of 2021 is enforced, the company is classified as a Micro and Small Enterprise if the annual sales are more than 2000 but less or equal to 15,000 ( $2.000 < S \leq 15.000$ ).

On the one hand, the implementation of Government Regulation No. 7 of 2021 has the potential to increase the number of business units, namely from businesses that are in the range of  $2.500 < S \leq 15.000$ ; but on the other hand, no longer covering businesses in the range of  $300 < S \leq 2.000$  as Small enterprises will have an impact on reducing the number of Small Enterprises. The difference between the number of businesses in

**Table 10.** Results of Micro Enterprises Categorization

Annual Sales (Million Rupiah)	
Government Regulation No. 7 of 2021	Law No. 20 of 2008
$S \leq 2.000$	$S \leq 300$
Increased by units having $300 < S \leq 2.000$	

the range of  $2,500 < S \leq 15,000$  and those in the range of  $300 < S \leq 2,000$  will determine whether there will be an increase, a decrease, or no change in the number of Small Enterprises.

Prior to the enactment of Government Regulation No. 7 of 2021, the company was classified as a Micro Enterprise if the annual sales revenue was less or equal to 300. Meanwhile, after Government Regulation No. 7 of 2021 is enacted, the company is classified as Micro Enterprise if the annual sales revenue is less or equal to 2,000. It is clear here that the enactment of Government Regulation no. 7 of 2021 has an impact on increasing the number of Micro Enterprises. The large increase in the number of Micro Enterprises is as many as companies in the range of  $300 < S \leq 2,000$  (Table 10).

The number of big enterprises and MSME do not change due to the similarity of provision between new and old criteria. On the other hand, MSME potentially changes in number for every categorization. The number of medium enterprises will decrease, but Micro and Small Enterprises will increase. The increase of small and micro enterprises raises several possibilities. Small enterprises either increase, constant or decrease depending on the marginal change. However, micro-enterprises will increase in number. These changes in the number of enterprises in every category bring out the potential problem due to differences in authorities conducting the empowerment and development based on Law of Indonesia No. 23 of 2014.

## 4 Conclusion

This paper is meant to be a steppingstone for encouraging empirical work on delineating and defining MSME businesses in Indonesia using descriptive analysis, which utilizes the microeconomic evaluation “before-after” method specifically on criteria of MSME of Law No. 20 of 2008 Government of Indonesia and Government Regulation No. 7 of 2021. This study aims to investigate whether the enactment of government regulation number 7 of 2021 results in changes in the number of MSME business units. This paper only evaluates the impacts of enacting government regulation number 7 of 2021 paragraph (6) on existing enterprises that were previously assumed to be categorized using annual sales categorization according to Law No. 8 of 2008. Based on the results, even though the number of Enterprises existing when the Government Regulation No. 7 of 2021 comes into effect remains the same, a change in the number of MSMEs for each criterion potentially emerges due to modifications from previous and ongoing regulations. The number of big enterprises and MSME do not change due to the similarity of provision between new and old criteria. On the other hand, MSME potentially changes in number



for every categorization. The number of medium enterprises will decrease, but Micro and Small Enterprises will increase. The increase of small and micro enterprises raises several possibilities. Small enterprises either increase, constant or decrease depending on the marginal change. However, micro-enterprises will increase in number. These changes in the number of enterprises in every category bring out the potential problem due to differences in authorities conducting the empowerment and development based on Law of Indonesia No. 23 of 2014.

Further research from different perspectives, including net worth categorization in Law No. 20 of 2008 Government of Indonesia or different objects such as business candidates, is very recommended. Moreover, evaluations of this present study are only based on conceptual thinking. So, further empirical studies are suggested for future research.

## References

1. Antara, M., & Sumarniasih, M. S. (2017). Mapping of featured micro-small-medium enterprises in Buleleng Regency, Bali, Indonesia. *International Journal of Economics and Financial*, 7(4), 49–53.
2. BKPM. (2022). Upaya Pemerintah Untuk Memajukan UMKM Indonesia. <https://www.bkpm.go.id/id/publikasi/detail/berita/upaya-pemerintah-untuk-memajukan-umkm-indonesia>. Accessed March 27, 2022
3. Santoso, H. W., Darmasetiawan, N. K., Levina, V, Astanto, T. J., Ajiedragono, F., & Lim, R. (2022). Definition and criteria of MSME in Indonesia: Does it have ambiguous interpretations? Paper presented at the 2<sup>nd</sup> Law CMU International Conference: Dynamic of Laws amidst the Crisis and its aftermath, Chiang Mai.
4. Friedrich, C. J. (2007). *Public policy*. Style Express.
5. Lasswel, H. D., & Kaplan, A. (2013). *Power and society: A framework for political inquiry*. Transaction Publishers.
6. Jones, I. C. O. (1984). *An introduction to the study of public policy*. Brooks-Cole.
7. Said, A. Z. (2004). *Kebijakan public*. Yayasan Pancursiwuh.
8. Davis, G., & Bridgman, P. (2004). *Australian policy handbook* (3rd ed., pp. 130–131). Allen & Unwin.
9. Australian Capital Territory, Government Evaluation Policy and Guidelines, 2010, p. 5
10. Brownson, R. C., Royer, C., Chriqui, J. F., & Stamatakis, K. A. (2009). Understanding evidence-based public health policy. *American Journal of Public Health*, 99, 1576–1583.
11. Tomé, E. (2005). Evaluation Methods in Social Policy, No. 8, Boletín Informativo de Trabajo Social (Bits), Revista Digital, Escola Universitaria de Trabajo Social de Cuenca, Universidade deCastilla la Mancha.

**Open Access** This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

