Development of UMKM through Strengthening Aspect of Business Legality
(Case Study of Weaving Industry in Central Java)

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Abstract: The development model of Small and Medium Enterprises (MSMEs) through strengthening the aspect of business legality is unique because it connects the legality aspect with the growth and competitiveness of UMKM. The legality aspect that concerns business interests needs to be a new paradigm. The role of the state is to provide an effective regulatory framework along with monitoring and enforcement mechanisms. The government should take into consideration the fact that the support of legality aspect is needed for the SMEs where the workers are low income or are in it, while the capacity of UMKM is limited, both in terms of revenue and technology used. Data in this research will be obtained by field observation, interview and questionnaire. Resource persons and respondents in this study include the parties involved in the making of regulations and management of SMEs. The results of the research are presented in narrative form in various ways such as a deep reflection description about the regulation and policy of UMKM by the government in realizing people’s prosperity.

The results of this study indicate that the perpetrators of UMKM have an awareness about the aspect of business legality although it is felt to increase the burden of SMEs. The perpetrators of SMEs are willing to take care of the legality of the business in the hope of obtaining legal certainty in the effort and get the facilitation and coaching from the government so as to encourage the growth of UMKM. The model of MSME development through the legality aspect of the future business needs to consider the ability to pay (ability to pay) and the principle of benefit (benefit principle). The perpetrators of MSMEs as one of the economic development actors in the regions need to be empowered through the development of human resources, capital support, production and productivity, business protection, partnership development, business and marketing network and business legality.

Keywords: Legality, Business, Growth, UMKM
A. INTRODUCTION

1. Background

The law can serve as a social engineering tool (law is a tool of social engineering). So through the legal politics of business legality, MSMEs can be driven growth, and if managed properly, SMEs can increase productivity, increase public income and contribute to local revenue. Although UMKM is very big contribution in sustaining national economy but not necessarily followed by increase of income. The unfavorable business climate and the existence of policies on them are interesting to be studied and studied to find the solution in academic and implementation.

In line with the implementation of regional autonomy, local governments are given the authority to explore the potential of local revenue (PAD) in the form of local taxes, levies, results of business enterprises and other local revenue. The impact of regional autonomy and fiscal decentralization at first was the occurrence of “euphoria disease” in which the local government has made so many local taxes and regional retributions (PDRD) that it creates problems that are contrary to public interest and or higher regulations.

So far, in the making of local regulations, they have not considered all the available alternatives, so the issued regulations have negative, ineffective, inefficient, and hamper impacts on society and business sectors due to too many levies to be paid on the grounds of increasing PAD.

Once the accumulation of local regulations issues encourage the Ministry of Finance will review the perda considered problematic. According to Suryama Majana Sastra DPR RI member there are about 12,000 perda problem. Meanwhile, according to Bambang Sujagad from KADIN there are 25% of the 1,029 regulations that impede investment and burden the community. This is in line with the conclusion of the World Bank survey results that regulation is seen as the biggest obstacle in conducting business and investment development, especially foreign investors in investing or opening up their business in the region.

The findings and the expected innovations in this research are finding a competitive advantage model of Central Java SMEs with an approach to strengthening the business legality aspect in facing the ASEAN community in order to be able to gain competitive advantage both at national and international level. This research is expected to produce innovation in the field of human resources, marketing in order to be able to encourage the improvement of performance of UMKM and produce sustainable competitive advantage. This research is also related to science and technology because it will enrich the science in the field of law, especially aspects of licensing and trademark. The research also supports the implementation of Research Master Plan (RIP) of Unissula Semarang research institute to participate in developing small and medium enterprises especially in Central Java from legal aspect, human resources, marketing, production finance, innovation and technology, ICT in order to produce optimal performance and able to have the competitiveness of local, national and international. With the existence of high-performing SMEs, it will encourage economic improvement of the people of Central Java, increase employment and reduce the level of poverty.

This research will focus on the development of UMKM through strengthening the aspect of business legality to encourage the growth and competitiveness of SMEs in Central Java.

The enactment of Government Regulation No. 17 of 2013 on the Implementation of Law Number 20 Year 2008 regarding Micro, Small and Medium Enterprises, Regional Government has the authority to organize the empowerment of Micro, Small and Medium Enterprises.
2. Problem Formulation

How is the model of MSME development through strengthening the aspect of business legality that can drive the growth of SMEs in Central Java?

3. Theoretical Framework

This research is in accordance with the Master Plan of Research (RIP) of Sultan Agung Islamic University which is social, economic, educational and religious cluster especially Poverty Alleviation theme. The strategic issues studied are structural poverty issues (Government policies and legislation), with a review of economic, institutional, and regulatory aspects to support government macro policies in poverty alleviation.

The function of the state in the economic field, according to W. Friedman is as the provider (provider) of people’s welfare, the state as regulator (regulator), state as entrepreneur or run certain sectors through State Owned Enterprises (BUMN), and state as umpire (umpire) to formulate fair standards concerning economic sector including state corporation.

National development is a process of structural change that is done continuously and continuously. Development is a natural process to realize the dreams of the state, that is prosperous society prosperous, fair, and equitable. The natural process can be accomplished if development assumptions can be met, ie employment opportunities or full employment, each person has equal productivity (equal productivity, equal access, level playing field), and each actor acts rational (efficient).

Michel Todaro argues, development is a multidimensional process involving fundamental changes in social structure, social behavior, and national institutions. In addition, the acceleration of economic growth, the reduction of inequality, and the eradication of poverty are also scheduled.

Poverty is a chronic problem that plagues the Indonesian nation. According to the 2002 report of the Microcredit Summit, the total world population living below the poverty line is estimated to be around 235 million families, some of which are 157.8 million (67%) in Asian countries. One of the efforts to overcome poverty is to break the poverty chain through empowering community groups that have business in the smallest sector (SME).

Business legality covers several aspects that must be fulfilled, among others are: establishment deed, company name, trade mark, trade registration certificate (TDUP) and license of trade business (SIUP), taxpayer registration number (NPWP), business location permit, Company List (WDP).

The completeness of the legality aspects of SMEs business is very important in creating legal certainty that can support sustainable performance and competitive advantage, especially small and medium micro enterprises. Success in managing the legality aspect, organizational knowledge assets, customer relationship management and innovation capability will have an impact on the competitiveness of UMKM and able to contribute PDRB Central Java, Jepara Regency, Pekalongan City and Indonesia GDP. In addition, the development of SMEs in Central Java will create more jobs.

B. RESEARCH METHODS

In general, this research is descriptive analysis using policy approach (policy approach). The policy analysis approach examines the philosophical, sociological and juridical aspects of legal politics of business legality for MSMEs. Each approach to these aspects will be used at different levels of research depth.
The research method and technique used is a combination of literature study, field observation, survey method with structured interview, and indepth interview. Interview using closed questionnaire submitted to UMKM business actors (case study of weaving industry in Central Java). The selection of respondents is done by accident sampling (which is encountered) that is against the UMKM entrepreneurs. The number of respondents is as many as 90 employers. Each of the 45 entrepreneurs in Jepara District and Kota Pekalongan, with consideration of the amount is sufficient for statistical analysis. Data retrieval in this way is intended to know the characteristics, aspirations of the perpetrators of SMEs concerning the obligation to fulfill the business legality aspect.

Interview through an open questionnaire submitted to key figures who understand the business and business UMKM legality problem. In contrast to closed questionnaires, this interview was conducted to explore problems in more depth in order to find the most fundamental problems among other issues. This data collection is also intended to find out alternative solution for handling business legality problem for SMEs short term and long term.

C. RESULTS AND DISCUSSION

1. Existing Condition of Aspect of Legality of UMKM Business in Central Java

In this research used 60 respondents of UMKM, spread in Troso Village, Pecangaan Sub-district, Jepara District, that is respondents who fill the questionnaire correctly and provide information that can be accounted for, with details as follows:

The gender of male respondents was 36 men with percentage of 60%, and female respondents were 24 people with percentage of 40%.

The aged business of UMKM <5 years is 17 people with the percentage of 28.3%, 5 years - <10 years is 12 people with percentage of 20.0%, 1- year - <15 years totaling 15 people with percentage of 25.0%, and > 20 years amounted to 16 people with a percentage of 26.7%.

The perpetrators of MSME who know the Law no. 20 year 2008 about UMKM amounted to 21 people with percentage of 35%, perpetrator UMKM which do not know amounted 39 people with percentage equal to 65.0%.

The perpetrators of MSME who know the Law no. 20 of 2008 on Regional Regulation (PERDA) no. 13 of 2013 on empowerment of SMEs amounted to 23 people (38.3%), perpetrators of UMKM who do not know amounted to 37 people with a percentage of 61.7%.

UMKM has identity / identity that legalize its business, which has the name of the Company there are 18 SMEs with percentage of 30.0%, which has a brand of 2 SMEs with a percentage of 3.3%, which has SIUP of 7 UMKM (11.7%), who have IUI amounting to 4 MSMEs (amounting to 6.7%), which do not have all 23 MSMEs (38.3%), which have 1, 3 and 4 (Company Name, SIUP and IUI) and 1, 2 and 3 (Company Name, Brand and SIUP) and 1, 2 and 4 (Name of Company, Brand and IUI) are 1 MSME (1.7%), 1, and 2 (SIUP), respectively, of 3 MSMEs (5.0%).

The perpetrators of MSMEs Know or Not That In Doing Their Business Must Have Proof of Legality, who answered know numbered 23 people with percentage of 38.3%, perpetrator UMKM who do not know amount to 37 people with percentage equal to 61.7%.
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The perpetrators of MSMEs Knowing or Absence of Obligation of Legality of Business who answered know numbered 26 people with percentage of 38.3%, perpetrators UMKM who do not know amounted to 34 people with a percentage of 56.7%.

The perpetrators of MSME currently have business license or registration proof that answers to know amounted to 26 people with a percentage of 38.3%, UMKM actors who do not know amounted to 34 people with a percentage of 56.7%.

The perpetrators of MSME currently have business license or registration proof that answers to know amounted to 26 people with a percentage of 38.3%, UMKM actors who do not know amounted to 34 people with a percentage of 56.7%.

UMKM feel the benefits of having SIUP that answered yes feel the benefits amounted to 29 people with a percentage of 48.3%, who answered no benefit amounted to 26 people with a percentage of 43.3% and who answered did not know amounted to 5 people with a percentage of 8.3%.

The government needs to regulate the legality of MSMEs businesses that answer yes need to amount to 39 people with a percentage of 65.0%, who answered no need to number 21 people with a percentage of 35.0%.

Micro, Small and Medium Enterprises (MSMEs) has a strategic function, with the enactment of Government Regulation No. 17 of 2013 on the Implementation of Law Number 20 Year 2008 on Micro, Small and Medium Enterprises, Local Government has the authority to organize the empowerment of Micro, Small and Medium Enterprises. Based on this authority, the Regional Regulation (Perda) of Central Java Province Number 13 Year 2013 on the Empowerment of Micro, Small and Medium Enterprises is stipulated.

Provincial Government with the existence of regional autonomy has a bigger role to manage and manage the existing resources in the region in order to achieve prosperity in the region. The Government of Central Java Province strives continuously and sustainably to exploit the potential of abundant local economic resources that are expected to realize economic prosperity and justice in the region.

Economic prosperity and justice is one of the indicators of local economic growth that can guide the policies and strategies of the Central Java Provincial Government in favor of the people. Economic growth indicators can be seen the parameters of the realization of a conducive climate to try, increase employment, and the reduction of people who are in the poverty line.

SMEs as the majority economic actors at the national, regional and local levels have important and strategic role in creating employment, tackling poverty and encouraging the growth of non-oil export value. However, MSMEs still have some constraints both internally and externally in order to be competitive. The internal constraints can be aspects of business legality, capital constraints, raw material difficulties, low production capacity and product quality, and weak market access, while external constraints deemed to inhibit the development of MSMEs are threats of foreign products.

The empowerment of MSMEs that aims to increase the stubbornness of business actors in order to compete with other business actors. The basic principles of MSME empowerment have been set forth in Law Number 20 Year 2008 regarding Micro, Small and Medium Enterprises. To respond to the current situation and condition of UMKM empowerment, it is necessary to have a more focused Regional Regulation and able to fulfill the needs of UMKM actors.
In addition, the Regional Regulation is expected to explain explicitly the need for a comprehensive, sustainable and cross-sectoral MSME empowerment program. Related to this the Central Java Provincial Government establish Central Java Provincial Regulation No. 13 of 2013 on the Empowerment of Micro, Small and Medium Enterprises to become the legal basis of UMKM empowerment program in Central Java region.

The Central Java Provincial Regulation on the Empowerment of Micro, Small and Medium Enterprises is a manifestation of the commitment of the Central Java Provincial Government’s part in the small-scale economic actors so that the enactment of this Regional Regulation is expected to promote the realization of economic prosperity and justice in Central Java. Practically, the enactment of this Regulation is expected to provide a breakthrough in the empowerment of UMKM that encourages growth and enhance the competitiveness of SMEs in the region.

On the other hand there is a plan to make MSMEs as the focus or target of taxation that has been heard since the middle of 2011. At that time data sources indicate that MSME accounts for 61 percent of Gross Domestic Product but its contribution to total tax revenue is only 5 percent. Therefore strong allegations that the publication of Government Regulation No. 46 of 2013 is because the potential tax revenue from the sector of UMKM has not been explored to the fullest.

2. Description and Identification of Factors Affecting the Policy of SMEs Business Legality Management

Some UMKM perpetrators still do not have the awareness to take care of business legality. Local governments need to improve the socialization to the perpetrators of SMEs so that the awareness and compliance grow in starting a business by taking care of business license. Factors that affect the policy of SMEs business legality management include:

(a) The perpetrators of UMKM lack awareness related to the legality of their business, so the local government needs to be more proactive in providing socialization.

(b) The amount of tax levy as a social cost or security cost. In order not to cause a burden that is too heavy for the perpetrators of SMEs need to be reviewed the various charges that already exist.

(c) HR service officers who are not competent business services and professionals need to continue to be done capacity improvement of human resources.

(d) Insufficient licensing facilities and infrastructure services need to be completed.

(e) Weak enforcement of local regulations (law enforcement officers are minimal in quality and quantity), so it needs to do coaching.

According to most respondents, the government needs to regulate the legality aspect of UMKM business due to the important business license to coach and encourage the growth and competitiveness of UMKM. Socialization or counseling is needed by the perpetrators of SMEs, because so far they rate very little or even never get counseling about the aspect of business legality. The hope with the counseling can improve taxpayer compliance in taking care of business legality.

Economic prosperity and justice is one of the indicators of local economic growth that can guide the policies and strategies of the Central Java Provincial Government in favor of the people. Economic growth
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indicators can be seen the parameters of the realization of a conducive climate to try, increase employment, and the reduction of people who are in the poverty line.

With the enactment of Government Regulation No. 17 of 2013 on the Implementation of Law Number 20 Year 2008 on Micro, Small and Medium Enterprises, Local Government has the authority to organize the empowerment of Micro, Small and Medium Enterprises. For that reason, the Central Java Provincial Government has issued Regulation No. 13 of 2013 on the Empowerment of Micro, Small and Medium Enterprises.

Micro, Small and Medium Enterprises, hereinafter abbreviated as MSMEs is a productive economic enterprise based on business scale according to the laws and regulations. Micro Business is productive business owned by individual and / or individual business entity fulfilling the criteria of Micro Business.

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

Medium Enterprise is a stand-alone productive economic enterprise, conducted by an individual or business entity which is not a subsidiary or a branch of a company owned, controlled, or becomes part directly or indirectly with a Small or Large Business with a net worth or annual sales proceeds as stipulated in the Regional Regulations.

SMEs as the majority economic actors at the national, regional and local levels have important and strategic role in creating employment, tackling poverty and encouraging the growth of non-oil export value. However, MSMEs still have some constraints both internally and externally in order to be competitive. The internal constraints can include capital constraints, raw material difficulties, low production capacity and product quality, and weak market access, while external constraints deemed to inhibit the development of MSMEs are a threat of foreign products.

UMKM is one of the solutions for the government to reduce poverty and unemployment. There are about 48 million MSMEs in operation and can support their families. Many parties pay attention to this UMKM. In fact, developed countries are starting a business with MSMEs.

Based on data from the Department of Cooperatives and SMEs Central Java Province, there are 98,465 units of UMKM targeted in Central Java until the third quarter of 2014. Consisting of 33,772 units of SMEs engaged in the production / non agricultural, 17,452 units of agricultural SMEs, 35,597 units of SMEs trade, and 11,644 units of UMKM service sector. The development of the number of SMEs in 2013-2014 amounted to 8,126 business units with growth reaching 9.00%.

Factors and variables that affect the regulation of business legality for MSMEs are: a strong political commitment to encourage the growth of MSMEs through justice-based regulation. The perpetrators of SMEs have awareness of having business license, but with the hope that there is guidance from the government to encourage the growth of UMKM for example in the form of capital, training, skills, and intensive development. In addition, for MSMEs who are not disciplined in taking care of business legality should be taken firm action, so will grow the awareness that have the legality of business is for the interests of developing SMEs. Meanwhile, for the SMEs who obediently take care of business legality can be given
incentives and facilitation. To increase the awareness of the perpetrators of SMEs in managing the legality of business, the socialization activities need to be improved.

The empowerment of MSMEs that aims to increase the stubbornness of business actors in order to compete with other business actors. The basic principles of MSME empowerment have been set forth in Law Number 20 Year 2008 regarding Micro, Small and Medium Enterprises. To respond to the current situation and condition of UMKM empowerment, it is necessary to have a more focused Regional Regulation and able to fulfill the needs of UMKM actors.

In addition, the Regional Regulation is expected to explain explicitly the need for a comprehensive, sustainable and cross-sectoral MSME empowerment program. Related to this the Central Java Provincial Government set up a Central Java Provincial Regulation on the Empowerment of Micro, Small and Medium Enterprises to become the legal basis of the UMKM empowerment program in Central Java.

Central Java Provincial Regulation No. 13 of 2013 on the Empowerment of Micro, Small and Medium Enterprises is a manifestation of the commitment of the Central Java Provincial Government's side in the small-scale economic actors. This Regional Regulation is expected to encourage the realization of welfare and economic justice in Central Java. Practically, the enactment of this Regional Regulation is expected to provide a breakthrough in the empowerment of SMEs so as to encourage growth and improve the competitiveness of SMEs in the region.

On the other hand there is a plan to make MSMEs as the focus or target of taxation that has been heard since the middle of 2011. At that time data sources indicate that MSME accounts for 61 percent of Gross Domestic Product but its contribution to total tax revenue is only 5 percent. Therefore strong allegations that the publication of Government Regulation No. 46 of 2013 is because the potential tax revenue from the sector of UMKM has not been explored to the fullest.

The results of this study indicate that the perpetrato rs of SMEs have the awareness to take care of the legality of the business with the hope of doing fairly in accordance with the ability of SMEs. The development of legality regulatory design of the future business needs to consider the ability to pay (ability to pay) and the principle of benefit (benefit principle) to SMEs.

Preparation of business legality policy design in order to encourage the growth of SMEs should be segmentatif tailored to the level of ability of SMEs if necessary without charge. Different treatment from the side of obligations and benefits obtained by SMEs is the necessity that is the social obligation of the state and society in general.

Economic prosperity and justice is one of the indicators of local economic growth that can guide the policies and strategies of the Central Java Provincial Government in favor of the people. Economic growth indicators can be seen the parameters of the realization of a conducive climate to try, increase employment, and the reduction of people who are in the poverty line.

SMEs as the majority economic actors at the national, regional and local levels have important and strategic role in creating employment, tackling poverty and encouraging the growth of non-oil export value. However, MSMEs still have some constraints both internally and externally in order to be competitive (competitiveness). The internal constraints can be limited capital, raw material difficulties, low production capacity and product quality, and weak market access, while the external constraints that hamper the
development of SMEs are the threat of foreign products, therefore it is necessary to empower SMEs especially in facing the ASEAN Economic Community (MEA) 2015.

Empowerment is an effort made by Regional Government, Business World, and society synergistically in the form of climate growth and business development on Micro, Small and Medium Enterprises so as to grow and develop into a strong and independent business.

In addition, there is also a supportive business climate. The Business Climate is a condition that the Local Government seeks to empower Micro, Small and Medium Enterprises synergistically through the establishment of various laws and policies in various aspects of economic life in order for Micro, Small and Medium Enterprises to obtain a favor, certainty, opportunity, protection, and the greatest effort support.

D. CLOSING

1. Conclusion

The results of this study indicate that the perpetrators of UMKM have an awareness about the aspect of business legality although it is felt to increase the burden of SMEs. The perpetrators of SMEs are willing to take care of the legality of the business in the hope of obtaining legal certainty in the effort and get the facilitation and coaching from the government so as to encourage the growth of UMKM. The model of MSME development through the aspect of legality of the future business needs to consider the ability to pay (ability to pay) and the principle of benefit (benefit principle). Micro, Small and Medium Business actors as one of the economic development players in the region need to be empowered through human resource development, capital support, production and productivity, business protection, partnership development, business and marketing network and business legality.

Model of UMKM Development through Strengthening Business Legality Aspect (Case Study of Weaving Industry in Central Java) to Encourage SME Growth in the future by considering the following matters:

(a) It is necessary to increase awareness of MSMEs perpetrators to have business legality in order to encourage the growth of their business.
(b) The need to increase socialization / counseling aspects of business legality, especially to the perpetrators of SMEs to foster the level of awareness and compliance of SMEs perpetrators.
(c) Control of the perpetrators of MSME which do not have business license.
(d) Increasing the number, capability and quality of service officers to ensure business legality to be competent and professional.
(e) Increased motivation and commitment SKPD SME managers.
(f) Improved law enforcement and enforcement by involving independent teams.
(g) Providing incentives to MSMEs that have business legality to promote business growth through trainings, facilities and infrastructure, revolving capital and others.
(h) It is necessary to evaluate and synchronize Perda / Perbup / Perwalkot / SOP related to the legality of UMKM business to be adjusted with economic development.
2. **Suggestions**

Need further research on increasing the role of government and stakeholders in an effort to encourage the growth of SMEs through strengthening the aspect of business legality, synchronization with other regulations related to the management of MSMEs. The future model of MSME Development needs to consider the ability to pay (ability to pay principle) and the principle benefit (benefit principle) of SMEs business legality for the development of business. Micro, Small and Medium Enterprises as one of the economic development players in the region need to be empowered through human resource development, capital support, production and productivity, business protection, partnership development, business and marketing network and strengthening the legality aspect of their business.

**NOTES**


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