

Implementation of Individual Company Policies in Indonesia in the Job Creation Law

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KEYWORDS

Individual Company; MSMEs;
ease of doing business;
policy implementation;
Job Creation Law

ABSTRACT

Ease of doing business is an important indicator for Indonesia's economic growth, especially for the Micro, Small, and Medium Enterprises (MSMEs) sector, which accounts for the majority of GDP and national labor absorption. The implementation of the Individual Company policy through the Job Creation Law is one of the efforts to strengthen this sector. This study aims to evaluate the implementation of Individual Company policies in Indonesia, focusing on the role of the Ministry of Law and Human Rights as a data manager and its impact on the ease of doing business. The method used is a descriptive qualitative approach based on the post-positivism paradigm. Data were obtained through in-depth interviews with relevant actors and analysis of policy documents. The results of the study show that this policy has encouraged an increase in the registration of Individual Companies, reaching 151,355 entities by 2024. However, the main challenges include low adoption of digitalization, limited financial reporting capabilities, and constraints on policy socialization. This policy is considered effective in providing legal protection through the separation of personal and corporate assets, but requires strengthening the socialization and mentoring strategy of MSMEs on an ongoing basis.

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Introduction

Ease of Doing Business is an important indicator for economic growth, job creation, and encouraging investment in a country. In Indonesia, the government has made efforts to improve the ease of doing business with various policies and reforms. Several steps have been taken to improve the ease of doing business in Indonesia, one of which is by providing legal guarantees for business actors (Canare, 2018). Business actors in Indonesia are often known as Micro, Small and Medium Enterprises (MSMEs) where this sector has a big role in Indonesia's economic growth and is considered a driver of the national economy (Guidi et al., 2020). MSMEs are also one of the main pillars of the national economy. Based on data from the Ministry of Cooperatives and SMEs, the number of MSMEs in Indonesia reached 64.2 million in 2020, with a contribution to GDP of 61.07 percent or Rp8,573.89 trillion. MSMEs also absorb 97 percent of Indonesia's workforce and have an investment portion of 60.4 percent

Generally, MSMEs are started and run by individuals or small groups, these MSME entrepreneurs often start their businesses with limited resources, including capital, infrastructure, and human resources. However, the spirit of entrepreneurship and innovation often drives them to create unique and quality products or services. Based on data on the State of the Labor Force in Indonesia in February 2021 released by the Central Statistics Agency, the number of people with the main job of self-employment increased in 2020 but decreased in 2021. The consistent increase in 2019-2021 was seen in the category of self-employed, while the only classification of business actors that increased was the type of self-employed. In 2019-2021, the population of 15 years and older with the main job as entrepreneurs is dominated by those who are self-employed and tend to increase in 2021 (Leunbach, 2021; McMullen, 2024a, 2024b; McMullen et al., 2021). The target entrepreneurship ratio in the RPJMN encourages the growth of entrepreneurs assisted by permanent workers, but the proportion of entrepreneurs in this category is still very small compared to other categories (Ince et al., 2023).

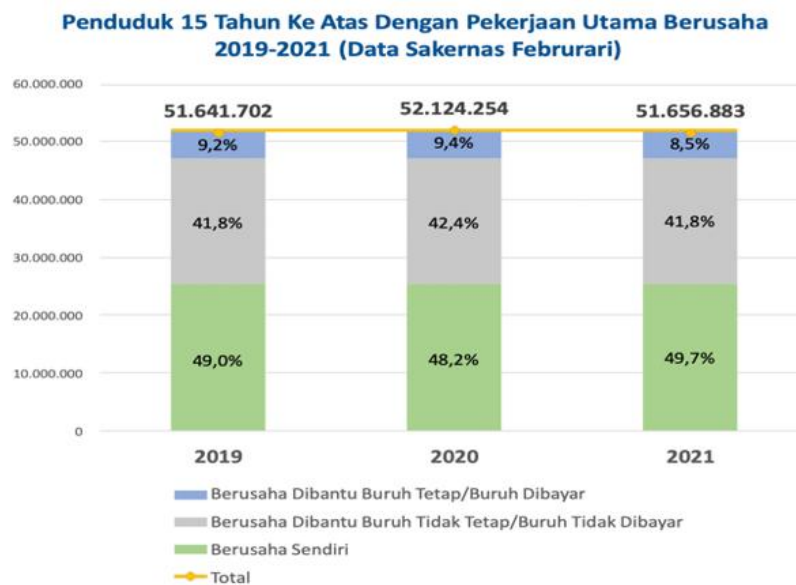


Figure 1. Characteristics of Business Actors in Indonesia

Source: BPS, 2021 data processed by the author

MSMEs are also an integral part of Micro and Small Industries (IMK), this IMK includes various types of businesses, including MSMEs, and together contribute significantly to the economy, especially in creating jobs and economic growth. MSMEs are often the backbone of the local economy, especially in rural or urban areas that are less developed. IMK, be it government agencies, non-governmental organizations, or the private sector, provides various resources and support to MSMEs by providing access to the resources they need be in the form of training, access to markets, financial services, infrastructure, and other technical assistance that helps MSMEs to grow and develop in a competitive business environment. Thus, the relationship between MSMEs and IMK is very important in supporting inclusive and sustainable economic growth, as well as in promoting economic independence and community empowerment.

Based on data from the 2022 Micro and Small Industry Profile issued by the Central Statistics Agency, it shows that the Characteristics of Micro and Small Industries in Indonesia are described by the 2016-continued Economic Census (2022). The number of Micro and Small Industry companies in Indonesia is estimated to be 4.34 million in 2022. Micro and Small Industry Operations are concentrated on the island of Java, accounting for approximately 62.58% of the total Micro and Small Industry operations throughout Indonesia. The provinces with the highest number of Micro and Small Industry companies are Central Java, East Java, and West Java at 20.56 percent, 20.15%, and 15.39%, respectively. On the other hand, the number of Micro and Small Industry companies in the eastern region of Indonesia is the least, which is only 1.62%. Meanwhile, North Kalimantan is the province with the least number of Micro and Small Industry companies, which is 0.12% of the total national Micro and Small Industries.



Figure 2. The Distribution of the Most Micro and Small Industries in the Province

From the two data above, it can be concluded that the problems that occur in Micro and Small Industries and Small and Medium Enterprises include constraints on access to financing and capital, constraints on market access, marketing and product promotion, constraints on access to raw materials/production tools, and constraints on access to digitalization/electronics and technology. Meanwhile, the level of the self-employed category continues to increase every year.

The theoretical framework for this study is rooted in policy implementation theories, emphasizing the interplay between regulatory frameworks and entrepreneurial activities. Grindle's (1987) theory highlights the importance of context in policy implementation, while Creswell (2014) underscores the value of qualitative methods in exploring nuanced policy impacts. Previous studies, such as those by Audretsch et al. (2007) and Canare (2018), demonstrate the correlation between ease of doing business policies and increased entrepreneurial activity. Furthermore, empirical evidence indicates that streamlined legal frameworks, like the Individual Company policy in Indonesia, can reduce bureaucratic barriers and promote formalization among micro and small businesses.

Relevant research supports the necessity of simplified business regulations. For instance, Nugroho (2006) emphasizes the role of coherent public policy in fostering sustainable economic growth. Similarly, Bruton et al. (2010) identify institutional reforms as pivotal in enhancing entrepreneurial ecosystems.

This study aims to evaluate the implementation of the Individual Company policy under the Job Creation Law in Indonesia. It focuses on the role of the Ministry of Law and Human Rights as a data manager and examines the policy's impact on the ease of doing business. By identifying the policy's strengths and challenges, this research seeks to provide actionable insights to improve policy effectiveness and support MSME growth.

Materials and Methods

The approach used by the researcher in this study is the post-positivism paradigm. The post-positivism approach is an approach that intends to improve the weaknesses of the Positivism approach, where Positivism only relies on the ability to directly observe the object being studied. The positivism paradigm is a view used to measure cause and effect, as well as test a Neuman theory (2014, p. 65). The method that will be used as a research method is a qualitative approach method. In addition, Creswell (2014, p. 32) said that the descriptive qualitative method is a type of research that aims to describe or explain what actually happened. The descriptive method allows the researcher to select research subject to be studied thoroughly and critically rather than simply providing an overview of the policy research subject. The qualitative method involves in-depth interviews with all key actors in the policy process. According to Marvasti (2004), this method was also chosen because it can help researchers present data in more depth. This is because different assumptions, research strategies, methods of data collection, analysis, and interpretation are used in this approach (Creswell, 2012).

Thus, the researcher uses the Post-Positivism approach, namely through qualitative research methods because the researcher in this case wants to get an in-depth understanding of the implementation of the Individual Company policy in the Law on Job Creation and specifically wants to know the extent of the role of the Ministry of Law and Human Rights as a data collector of individual companies by referring to the concepts, definitions, dimensions, and indicators in the regulation (Gobel et al., 2023). With this approach, it is hoped that the researcher will be able to accurately and objectively describe the problems of implementing individual company policies. In addition, it is also possible to use qualitative data as a complement to the information used in the analysis of research questions.

Results and Discussions

The Ministry of Law and Human Rights of the Republic of Indonesia through the Directorate General of General Legal Administration (Ditjen AHU) participates in an active role in presenting a new type of legal entity service, namely individual companies, where this individual company is also one of the realizations of the Job Creation Law. The concept of an individual company in Indonesia is a form of legal entity that provides legal protection to business actors through the separation of personal and corporate assets in the form of capital statements, as well as making it easier for business actors to access financing from banks. Individual Companies are actually not a completely new policy, especially for some countries only the concept of mention is different. For example, in the UK it is called a Sole Trader, in the Netherlands it is known as "Eenmanszaak", in Vietnam it is called "Private Enterprise" and then in the United States, Canada and Singapore it is called an Individual Company "Sole Proprietorship". However, in Indonesia, the concept of Individual Companies is different from those countries.

The form of an Individual Company in the Job Creation Law changes the definition of a PT to "A Limited Liability Company, hereinafter referred to as the Company, is a legal entity that is a capital partnership, established based on an agreement, carrying out business activities with authorized capital that is entirely divided into shares or an individual legal entity that meets the criteria for Micro and Small Enterprises as regulated in the laws and regulations concerning Micro and Small Enterprises. shareholders in Individual Companies are owned by individuals. In the sense that the

owner of shares of an Individual Company must not be in the form of a legal entity. This refers to Article 153E of the Job Creation Law, "Shareholders in a PT for the MSE category are natural persons, not legal entities. One person can only establish one Individual Company in the MSE category in one year. This Individual Company Concept allows each individual to establish a Limited Liability Company (hereinafter referred to as PT) with only one founder. In contrast to ordinary PTs that must be established with a minimum of two people, as referred to in Article 7 of Law Number 40 of 2007 concerning Limited Liability Companies (hereinafter referred to as the PT Law).

Although the Job Creation Law has been repealed and replaced by Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation, the regulation regarding Individual Companies is not much different. Individual Companies are expected to be one of the benchmarks to assess the ease of doing business in Indonesia. The regulation regarding Individual Companies will remove the public's view that the cost of establishing a PT requires a large cost. As mentioned in Article 3 paragraph (2) of the Job Creation Perpu, the amount of authorized capital of an Individual Company is determined based on the decision of the company's founders. Through the simplification of regulations on business establishment licensing with the concept of Individual Companies, the government hopes that this effort can increase the number of business actors in Indonesia. Individual Companies have several advantages such as:

- 1) Business Actors can establish an Individual Company which is only established by 1 (one) and is a legal entity so as to provide legal protection to business actors in the form of limited liability through the separation of personal and corporate assets in the form of a capital statement as befits a Limited Liability Company in general
- 2) The establishment of an Individual Company does not require a notary deed by only filling out the statement of establishment form, the status of a legal entity is obtained by filling out the statement of establishment electronically without the ratification of the Minister of Law and Human Rights of the Republic of Indonesia.
- 3) Individual Companies also make it easier for business actors to access financing from banks. The founder is done simply by filling out the statement of establishment form electronically and the legal entity status can be obtained after receiving proof of registration.
- 4) business actors who establish Individual Companies are exempt from the obligation to announce in the Supplement to the State Gazette as a form of bureaucratic simplification. This Individual Company is one-tier, meaning that the sole shareholder also concurrently serves as a director without the need for a commissioner.
- 5) The requirements for the establishment of an Individual Company are limited to being established by Indonesian Citizens, at least 17 (seventeen) years old and legally competent.
- 6) meet the Criteria for Micro and Small Enterprises in accordance with the provisions of "Government Regulation No. 8/2021", namely having a maximum business capital of 5 billion excluding land and buildings, or having an annual sales result of IDR 2,000,000,000.00 (two billion Rupiah) or more up to a maximum of IDR 15,000,000,000.00 (fifteen billion Rupiah).
- 7) The establishment fee is only with PNPB of IDR 50,000 (based on PMK Number 49/PMK.02/2021)

Based on data obtained from the Report of the Directorate General of General Legal Administration for 2021 to 2024, there are 151,355 companies that have been registered in the database, which can be seen through the following table:

Table . Registrar of Individual Companies by Province

No	Province	Year 2021	Year 2022	Year 2023	January 2024
1	Aceh	98	218	1014	1636
2	Bali	280	564	2008	4424
3	Banten	800	1621	7425	13487
4	Bengkulu	39	80	553	928
5	IN Yogyakarta	260	538	1765	3303
6	Jakarta	1020	2229	10585	16897
7	Gorontalo	30	68	525	836
8	Jambi	72	157	708	1117
9	West Java	2500	4999	19984	36540
10	Central Java	833	1674	7482	11910
11	East Java	1414	2877	10739	18066
12	West Kalimantan	98	214	1112	1964
13	South Kalimantan	119	238	986	1714
14	Central Kalimantan	77	142	623	1369
15	East Kalimantan	199	405	1589	2779
16	North Kalimantan	15	34	215	401
17	Bangka Belitung	20	58	357	573
18	Riau Islands	73	218	1375	2471
19	Lampung	131	392	1872	3022
20	Maluku	22	34	292	487
21	North Maluku	12	39	192	365
22	West Nusa Tenggara	83	249	1058	1782
23	East Nusa Tenggara	47	103	549	1059
24	Papua	26	52	718	903
25	West Papua	13	30	140	201
26	Riau	142	426	1714	2989
27	West Sulawesi	55	85	471	886
28	South Sulawesi	154	462	2210	3858
29	Central Sulawesi	60	112	622	1230
30	Southeast Sulawesi	43	163	717	2294
31	North Sulawesi	72	212	904	1540
32	West Sumatra	94	282	1230	1885
33	South Sumatra	131	331	1679	2860
34	North Sumatra	356	711	3321	5482
TOTAL		9388	20017	86734	151355

(Source: Report of the Directorate General of General Legal Administration in 2024, processed)

Based on the table above, it shows that the largest number of provinces with individual company registrants based on the distribution of provinces with the five most provinces are in West Java, East Java, DKI Jakarta, Central Java and Banten. This happens because the island of Java is the largest island in Indonesia and has a very large population, has better infrastructure including transportation access, such as toll roads, ports, and airports that facilitate the distribution of goods and services. Then have better access to human resources, including a trained and educated workforce, which supports business growth and innovation. In addition, the center of industry, business and government is still concentrated on the island of Java.

The government then adopted the Perpu on Job Creation to anticipate global situations such as global economic uncertainty, rising inflation, the threat of stagflation, and increased geopolitical tensions. The government reasoned to enact this Perpu because there is no law, especially in terms of the investment sector. The Constitutional Court's Decision No. 91/PUU-XVIII/2020 concerning the Job Creation Law with Article 57 paragraph (2) of Law No. 7 of 2020 concerning the Third Amendment to Law No. 24 of 2003 concerning the Constitutional Court shows that the Perpu on Job Creation is also intended to replace the Law on Job Creation which is officially considered unconstitutional. Prior to the Constitutional Court's decision No. 91/PUU-XVIII/2020 regarding the Job Creation Law, MSME business actors who had taken care of business licensing felt unsure about the legal force of their business legality and were unsure whether their business would be legally protected.

The implementation of the Perpu on Job Creation is expected to increase investment and improve the quality of cooperatives and MSMEs, as well as increase job opportunities for the Indonesian people. This is in line with the Regulation of the Minister of Cooperatives and Small and Medium Enterprises Number 4 of 2015 which regulates the growth and development of cooperatives, cooperative members, micro enterprises, small businesses, start-up entrepreneurs, and non-governmental educational institutions throughout Indonesia.

Conclusion

Progress in achieving the main goal of having an individual company, namely easy access to capital with banking for business actors. One of the challenges of MSME implementation for the establishment of individual companies is the change in the criteria for MSMEs which are increasing, most MSMEs have not been able to access digitalization/electronics, many MSMEs have not been able to make financial statements, and there are still MSMEs that often change locations and business activities. A coaching strategy is needed that is carried out continuously by the government by conducting intensive policy socialization, increasing assistance to MSMEs in the context of establishing individual companies and it is not easy to give sanctions to MSMEs. The fundamental challenge that then emerged that there is still a lack of interest from business actors in establishing business entities, this is reflected in the number of registrants which is still at 151,355, while Indonesia needs 4 million new entrepreneurs to become a developed country while currently the ratio of entrepreneurs in Indonesia is still around 3.1 percent of the total population of Indonesia.

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