



## THE ROLE OF DOMESTIC INVESTMENT (DI) AND BUSINESS, MICRO, SMALL AND MEDIUM (MSMEs) IN INVESTMENT IN INDONESIA

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*Domestic Investment, MSMEs, Indonesian Economic Growth.* One indicator of a country's national development is its economic growth. Economic development is an indicator to find out how successful a country's economic development is and also as a determinant of development policies that will be formed next. Economic growth and development aim to increase job opportunities for the community, which must involve all levels of society in its implementation. One component that plays an important role in Indonesia's economic growth is Micro, Small and Medium Enterprises (MSMEs) and also Domestic Investment (DI). MSMEs plays a role in the absorption of labor so that they also contribute to national income. However, the economic growth of a country can also be helped by investment. This research is a normative legal research using secondary data, as well as a statutory approach which is then compiled qualitatively. The conclusion of this study shows that the role of MSMEs in the development of investment in Indonesia is in terms of expanding the provision of employment, making a significant contribution to the development of a country, distributing income increases and increasing the competitiveness and resilience of the national economy. Meanwhile, DI plays a role in financing which is important for developing regions and is able to make a sizable contribution to development and plays a role in increasing economic growth through a conducive investment climate in Indonesia.

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### A. Introduction

Development that only prioritizes centralized and uneven growth coupled with the lack of balance in social, political, and economic life will make development fragile. Therefore, development must include the role of society as the main actor and as the party that will feel the development. One indicator of national development is economic growth. Economic growth is an indicator to determine how successful a country's economic development is and as a determinant of further development policies. A

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country can be said to have experienced economic growth if there is an increase in national income and an increase in output (Mankiw, 2007).

The increase in national income can be seen from the large amount of Gross Domestic Product (GDP) produced each year. For a region to see its regional income is seen from the amount of Gross Regional Domestic Product (GRDP) produced each year. Indonesia as a developing country has a character that is not much different from other developing countries, to achieve economic growth Indonesia in its development process is faced with limited capital for development investment (Mukhlis, 2015). Meanwhile, according to Todaro in his book *Economic Development in the Third World*, one of the main components in the economic growth of each country is capital accumulation (Todaro, 2006).

The main objective of economic development is to increase the number of goods and services and employment opportunities for the community. The implementation of economic development must involve all levels of society and the government in taking the initiative of regional development by using all available resource support and designing and building the regional economy.

One of the roles of society in national development, especially in economic development, is Micro, Small, and Medium Enterprises. The position of Micro, Small, and Medium Enterprises (MSMEs) in the national economy has an important and strategic role (Pujiono, 2012). This condition is very possible because the existence of MSMEs is quite dominant in the Indonesian economy, with the reason for the large number of industries and is in every economic sector; great potential in absorbing labor, and the contribution of MSMEs in the formation of Gross Domestic Product (GDP) is very dominant. Another reason is that micro and small businesses have advantages in areas that utilize natural resources and are labor-intensive, especially in the agricultural sector of food crops, plantations, livestock, fisheries, trade, and restaurants. Medium businesses have advantages in creating added value in the hotel, financial, corporate, corporate services and forestry sectors. Large businesses have advantages in the processing, electricity, gas, communications, and mining industries. So this proves that MSMEs and large businesses complement each other and need each other, even though in reality MSMEs are more dominant in absorbing labor and contributing to national income (Sarfiyah, 2019). In addition, this is also because MSMEs are small and medium businesses, the number of goods traded is not much, so it is easier to change goods if desired. In its application, MSMEs have many types of businesses such as in the culinary, fashion, agribusiness, electronics, services, and others.

In addition to the role of MSMEs, economic growth can also be assisted by making investments. Investment or commonly referred to as capital investment or capital formation is one component that affects the level of aggregate expenditure. Investment is one of the instruments in a nation's economic system that is very important, it is not surprising that in developed countries and Indonesia, they are trying optimally to become investment destinations in order to drive the wheels of the

economy that are directly related to the production system, trade and export activities and economic activities of the community in general. This scope is not excessive if it is stated that the presence of investment is something significant in national development or precisely in driving the wheels of the economy carried out by the government (Mohede, 2013).

Domestic Investment (DI), namely the activity of investing capital to conduct business in the territory of the Republic of Indonesia by domestic investors or investors using domestic capital. Not only the private sector is trying to make investments but the government also plays a role. For example, the government is improving infrastructure and adding assets. Regional development financing for this infrastructure is usually referred to as capital expenditure. Capital expenditure is an expenditure related to investment activities carried out by the government to achieve development targets. Capital expenditure will result in the provision of facilities and infrastructure needed to increase economic growth.

The existence of both domestic and foreign investment provides a number of benefits for the government, namely it can absorb labor in the recipient country, can create demand for domestic products as raw materials, increase foreign exchange, especially foreign investors who are export-oriented, can increase state income from the tax sector, there is a transfer of technology and transfer of knowledge (transfer of know how) (Dewi P. M., 2014).

## **B. Method**

The research method uses a document study method on previous research results, which are traced through journals on several electronic media such as digital libraries, websites and library journal connections. Journal searches are conducted through Google Browser and Google Scholar. Journal searches are conducted using keywords: DI, MSMEs, Indonesian Economic Growth. From each research result obtained, it is further analyzed, which is then used as a supporting journal to strengthen that MSMEs is a Pillar of Building the Nation's Economy.

## **C. Result & Discussion**

### **1. The Role of DI (Domestic Investment) in Investment in Indonesia**

The term Domestic Investment (DI) comes from English, namely domestic investment. Domestic Investment (DI) can be found in Article 2 of Law Number 6 of 1968 concerning Domestic Investment (DI). Domestic Investment is the use of wealth as referred to in Article 1, either directly or indirectly to run a business according to or based on the provisions of this law. Direct use of wealth is the use of capital used directly by domestic investors to develop their businesses, while indirect use is the use of capital that is not used directly to build a business. The implementation of investment is based on applicable laws and regulations.

Article 1 of Law Number 25 of 2007 concerning Investment, Domestic Investment is an activity of investing capital to conduct business in the territory of

the Republic of Indonesia carried out by domestic investors using domestic capital.

Parties that can become Domestic Investment are:

1. Individuals who are Indonesian citizens, and or;
2. Indonesian Business Entities, and or;
3. Indonesian Legal Entities.

Article 3 paragraph (1) letter a states that investment activities are carried out based on the "principle of legal certainty" which means the principle in a state of law that places laws and provisions of laws and regulations as the basis for every policy and action in the field of investment. In this context, what is meant by legal certainty is the consistency of regulations and law enforcement in Indonesia. Consistency of regulations is indicated by the existence of regulations that do not conflict with each other, and can be used as a guideline for a sufficient period of time (Nuraini, 2016).

Domestic Investment began in 1968, namely since the enactment of Law Number 6 of 1968 concerning Domestic Investment until now. With this law, it provides an opportunity for domestic investors to invest their capital domestically. The study of the development of domestic investment can be studied from two eras, namely the New Order era and the reform era. The implementation of domestic investment in the New Order era began in 1968 to 1997. The amount of domestic investment invested by domestic investors during the New Order (1968 to 1997) was IDR 580,384,996 trillion.

The Ministry of National Development Planning/Bappenas is optimistic that investment in Indonesia will recover in 2021. Bappenas estimates that investment will jump 6.4% after being quite affected since the Covid-19 outbreak began in 2020. Based on Bappenas data, investment realization in 2021 is targeted to reach IDR 858.5 trillion, higher than the 2020 realization target of IDR 817.2 trillion. Investment inflows into the country, especially through Domestic Investment (DI), come from the manufacturing industry sector, which is estimated to reach around IDR 270 trillion. DI's contribution to the total realization of PMA and DI in 2021 is also targeted to reach 49.7%, an increase compared to the 2020 target of 47.4%.

Improving the business climate for investment that supports national priority sectors is a major factor in economic recovery in 2021. Legal certainty for business and investment is expected to be created along with the implementation of the Job Creation Law. From the performance of investment realization for the January-September 2020 period, it can be seen that DI still provides a greater contribution of IDR 309.9 trillion or 50.7% of the total realization, with the ability to absorb 448,934 Indonesian workers. As for the largest contributor sector, PMDN comes from the transportation, warehouse, and telecommunications sector at 23.6% and the project location with the largest investment realization is in East Java at 15.3%.

The theory of economic growth developed by the Neo-Classicals emphasizes the role of capital owned by a country. Capital sourced from within the country or abroad will help a country's economy. Domestic investment or also known

as Domestic Investment (DI) is considered capable of encouraging a country's economy to develop very well, where if investment that occurs domestically increases, it will increase economic growth (Jufrida, 2016). In addition, the research results of Trisnu and Purbadharmaja (2014), Jufrida, et al. (2016), Ibrahim and Dahie (2016), Emmanuel and Kehinde (2018) Mahrisa and Ammar (2019), Tran and Hoang (2019) show that domestic investment has a significant positive effect on economic growth.

Investment must be part of the implementation of the national economy and be placed as an effort to increase national economic growth, create jobs, increase sustainable economic development, increase national technological capacity and capabilities, and realize community welfare in a competitive economic system (Yulianto, 2003).

## **2. The Role of MSMEs in Investment in Indonesia**

The economic crisis that occurred in 1997, the impact of which is still felt today, has made an extraordinary economic history and learning experience. If you want to learn from the economic crisis, there are several lessons that can be learned, including:

1. Building an economy does not rely on one's own strength, but on foreign debt,
2. The pattern of economic development that relies on large companies is not strong enough to produce a socio-economic structure,
3. MSMEs that have received less attention have actually been able to survive in the midst of the economic crisis and are able to drive the wheels of the economy with their own strength.

To improve the welfare of society, various efforts and studies have been carried out, the government and scientists have sought solutions to welfare problems that have not reached all levels of society, studies from various perspectives have been carried out, there are many factors to improve welfare, including the independence of society to strive for their welfare by becoming entrepreneurs and improving the investment climate (Mulyadi B. , 2018).

Learning from the economic crisis, MSMEs are recognized as a very important business sector because of their role and function in the economy. And the government has begun to pay attention to MSMEs. However, MSMEs still need support from various parties in strengthening MSMEs for the development of MSMEs themselves. The development and growth of MSMEs need to be continuously improved because of their role in providing jobs that will directly reduce unemployment which will lead to overcoming poverty.

The MSMEs sector has a very important role in the Indonesian economy because this sector is the sector that plays the most role in absorbing labor and it has been proven that when the economic crisis hit Indonesia, this sector was also able to survive. For this reason, the government should pay more attention to the extent to

which government policies, especially in the legal field, can protect and develop this MSMEs sector (Sitorus, 2018).

By strengthening MSMEs through government commitment, it is expected to improve the investment climate and increase business enthusiasm, thus MSMEs can become pillars in building the nation's economy. With its huge role in the national economy, MSMEs should receive special attention from policy makers

According to Sukirno, building the economy is economic growth followed by changes in other aspects of the economy, such as educational development, development of HR qualifications, technological improvements and increasing levels of community prosperity. Where this level of prosperity is generally measured by the level of nominal per capita income calculated using the GDP formula approach divided by the population. Building the economy must be continuously followed by the development of institutions that can provide encouragement to the development of various economic activities. Therefore, it can be concluded that building the economy is a process of improvement followed by economic growth in order to increase the level of community prosperity.

Thus, the direction of economic development must be an elaboration of economic democracy which is meant to free the people from backwardness and poverty as discussed in Article 33 of the 1945 Constitution. Small businesses are every individual business or legal entity that carries out activities in the economic sector that are carried out simply to make a profit. Small businesses are businesses on a small scale. Small businesses according to Bank Indonesia Circular No. 26/1/UKK concerning small business credit (KUK) are businesses that have a maximum total asset of Rp. 600,000,000, while based on Law No. 29 of 1995, what is meant by small businesses are small-scale people's economic activities and meet the criteria of net assets or annual sales results such as ownership as regulated in the Law. Micro, small and medium businesses are businesses run by small people and are family-based using local resources, applying simple technology and easy entry and exit of industry (Bank Indonesia).

According to Bappenas, the role of MSMEs consists of (Putri, 2019):

- 1) Expansion of employment opportunities and absorption of labor.
- 2) Formation of Gross Domestic Product (GDP).
- 3) Provision of a safety net, especially for low-income people to carry out productive economic activities.

However, in general, the role of MSMEs in the Indonesian economy consists of (Abidin, 2020):

- 1) Means of Equalizing the Economic Level of the Small People.

MSMEs play a role in equalizing the level of the people's economy because they are located in various places. MSMEs even reach remote areas so that people do not need to go to the city to get a decent living.

- 2) Means of Alleviating Poverty.

MSMEs play a role in alleviating society from poverty because the labor absorption rate is relatively high.

3) Means of Foreign Exchange Income for the State.

In fact, MSMEs contribute foreign exchange to the country because their market reaches not only nationally but also abroad.

To face an increasingly open and competitive market mechanism, market control is a prerequisite for increasing the competitiveness of MSMEs. Therefore, it is important for MSMEs to obtain information easily and quickly, both information regarding production markets and production factor markets. Information about the production market is very necessary to expand the marketing network of products produced by MSMEs. According to Effendi Ishak (Ishak, 2005), information on the production market or commodity market that is needed, for example

- (1) types of goods needed,
- (2) purchasing power of the community,
- (3) prevailing market prices,
- (4) consumer tastes in local, regional and international markets.

Thus, MSMEs can anticipate various market conditions so that in running their businesses they will be more innovative. Meanwhile, information on the production factor market includes:

- (1) sources of raw materials needed,
- (2) prices of raw materials,
- (3) how to obtain business capital,
- (4) who are the professional workers,
- (5) decent wage or salary levels,

Therefore, the role of the government is very necessary in encouraging the success of MSMEs in gaining access to expand their marketing networks. In addition to having ease and speed in obtaining market information, MSMEs also need to have ease and speed in communicating or promoting their businesses to consumers widely both domestically and abroad.

According to Naisbitt, the development of the world economy will be dominated by small and medium enterprises, in other words, countries that have strong networks in their small businesses will succeed in competing in the global market (Nur, 2006).

With the enactment of Law Number 11 of 2020 concerning Job Creation (Job Creation Law), there are several changes in the regulations related to MSMEs. Minister of Law and Human Rights Yasonna Laoly said that there are quite significant advantages for Micro, Small, and Medium Enterprises (MSMEs) in Government Regulation (PP) Number 7 of 2021 concerning Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small and Medium Enterprises which is a derivative of the Job Creation Law, one of which is regarding the classification of MSMEs from their criteria. This Government Regulation stipulates that the grouping of MSMEs is based on business capital or annual sales results. The business capital criteria are used to group MSMEs that are just about to be established after the

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MSMEs Government Regulation comes into effect. Meanwhile, the annual sales criteria are used to group MSMEs that already exist before this PP comes into effect. Before the Government Regulation, the criteria for MSMEs were first regulated in Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs Law). In more detail, the criteria for MSMEs are regulated in Article 6 of the MSMEs Law. There is a significant difference where the business capital criteria in the Government Regulation for MSMEs are greater than the criteria regulated in the MSMEs Law. In addition, through this Government Regulation, the Central Government and Regional Governments are required to provide free legal assistance and mentoring services to MSMEs actors so as to provide protection for every business actor who has been registered and has a business registration number.

### **D. Conclusion**

Domestic Investment (DI) is one of the important sources of financing for developing regions and is able to provide a significant contribution to development. DI is considered to be able to drive the economy of a developing country very well, where if the investment that occurs domestically increases, it will increase economic growth. Domestic Investment (DI) has a positive and significant effect on economic growth. This means that the higher the realization of domestic investment, the higher the economic growth in Indonesia.

MSMEs play an active role in expanding the provision of employment, making a significant contribution to economic growth, and equalizing income increases and increasing the competitiveness and resilience of the national economy. However, MSMEs still need support from the government and various parties in strengthening MSMEs for the development of MSMEs themselves.

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