

RECONSTRUCTION OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) EMPOWERMENT POLICY FROM THE PERSPECTIVE OF PEOPLE'S ECONOMY (EKONOMI KERAKYATAN): AN ANALYSIS OF REGULATIONS AND PUBLIC GOVERNANCE

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are a vital pillar of the Indonesian economy, contributing 61 percent to the Gross Domestic Product in 2024. However, the reality shows that MSME empowerment policies are shifting away from the spirit of the People's Economy (Ekonomi Kerakyatan). Existing policies tend to prioritize market efficiency and procedural ease, largely disregarding the principles of social justice and people's economic sovereignty. This study aims to critically analyze the normative misalignment between the regulatory framework for MSME empowerment, specifically Law Number 20 of 2008, or the Job Creation Law (Undang-Undang Cipta Kerja), and Government Regulation Number 7 of 2021, and the principles of the People's Economy and good public governance. Using a qualitative method through regulatory analysis, this research finds that the policy direction has shifted from substantive empowerment to administrative facilitation. Key findings indicate the dominance of a market efficiency paradigm that trivializes the meaning of empowerment, alongside a lack of space for public participation in policy formulation. As an implication, this study recommends a policy reconstruction that is affirmative towards strengthening collective economic institutions and implementing participatory governance to pursue holistic MSME empowerment.

INTRODUCTION

Micro, Small, and Medium Enterprises, and Cooperatives (MSMEs and Cooperatives, or MSMEC) are consistently recognized as vital actors in the national economic structure. This role is not merely a rhetorical statement, but a reality supported by quantitative data ([Sofyan, 2017](#)). In 2023, the contribution of MSMEs to the national Gross Domestic Product (GDP) reached 61%, equivalent to an economic value of Rp9,580 trillion (Statistics Indonesia, 2024). In terms of labor absorption, their role is even more dominant, with the MSMEC sector providing employment for approximately 117 million people, encompassing 97% of the total national workforce. These figures affirm the

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significant scale of MSMEC in the economy, not only as a driving force for economic growth but also as a crucial social safety valve, especially in the face of various economic shocks.

Behind the quantitative dominance of MSMEC lies a deep-rooted structural paradox. The majority of MSMEC in Indonesia still grapple with significant qualitative vulnerabilities (Prayuda et al, 2024). MSME actors consistently face classic challenges, namely the access gap to productive resources, such as bank capital and financial access, digital technology adoption, and broader market access within the supply chain ([Sinuhaji & Ibrahim, 2024](#)). A 2019 study by PricewaterhouseCooper (PwC) found that 74% of MSMEC in Indonesia had not yet obtained financing access, largely due to low financial literacy and inadequate financial records. This condition is further exacerbated by the currents of globalization and economic liberalization, which demand high competitiveness, often placing MSMEs in an unfavorable bargaining position when dealing with large-scale businesses ([Krisna, 2024](#); [Sedyastuti, 2018](#)). The dominance of MSMEs in Indonesia's economic structure, therefore, reflects the large percentage of the informal sector with relatively low productivity, rather than a dynamic and innovative small business ecosystem. This "many but fragile" phenomenon indicates that quantity does not always correlate with quality, resilience, and economic sovereignty (Yolanda, 2024).

The discourse on the People's Economy (Ekonomi Kerakyatan) is not narrowly limited to MSMEs as individual or personal business entities. Mohammad Hatta's original idea explicitly positions the Cooperative as the "soko guru" or the main pillar of the national economy. The Cooperative, based on the principles of community solidarity (*kekeluargaan*) and common ownership, is seen as the antithesis of individualistic capital accumulation and represents the institutional embodiment of the spirit of mutual cooperation (Nasution et al, 2024). Thus, the People's Economy is fundamentally supported by two legs: MSMEs as a representation of the people's entrepreneurial initiative and self-reliance, and Cooperatives as the institutional form of democratic collective economic power. However, in its development, public policy often treats the two separately, sometimes even neglecting the central role of Cooperatives and focusing more attention on MSMEs. This separation risks distorting the very concept of the People's Economy, shifting it from a system that balances individual initiative with collective strength to merely a relief program for small businesses.

Facing this tendency toward policy separation between MSMEs and Cooperatives, the state, through the government, has intervened with a series of business empowerment policies. Nevertheless, an in-depth analysis indicates a fundamental paradigm shift in the orientation of these policies ([Wahid, Rohadi, & Shodikin, 2023](#)). Policies that are ideally and constitutionally rooted in the philosophy of economic democracy and social justice, as stipulated in Article 33 of the 1945

Constitution and articulated in Mohammad Hatta's concept of the People's Economy ([Bahri, 2023](#); [Suyono, 2021](#)), now show a strong tendency to adopt the logic of market efficiency and ease of doing business. This shift can be clearly traced through the evolution of the regulatory framework, starting from Law Number 20 of 2008 concerning MSMEs, which had a protective nuance, to the era of Law Number 11 of 2020 concerning Job Creation and its implementing regulations, which radically altered the policy landscape under the pretext of improving the investment ecosystem and efficiency ([Khair, Widiatmoko, & Simarmata, 2022](#)). A crucial shift has occurred, where the term "empowerment" has gradually been reduced in meaning to mere "ease of doing business" ([Elvlyn & Marhaen, 2022](#)). This shift is not just one of terminology but a paradigm shift from the state's structural intervention efforts to address inequality to the state's facilitation efforts to smooth market mechanisms ([Putri et al, 2024](#)).

The shift in the policy logic of MSMEC empowerment reflects a broader dilemma in development policy in developing countries: the tension between the mandate to realize social justice and the demand for economic efficiency ([Prasetyo, Budiono, & Hadiyantina, 2022](#)). On one hand, the constitutional and historical mandate requires the state to side with the economically weak group. On the other hand, pressure to attract foreign investment and improve the ease of doing business rankings encourages the government to deregulate and simplify procedures, which often benefits established business actors ([Sinaga, 2017](#)). Consequently, the resulting policies are often ambiguous and contradictory, using the rhetoric of empowerment but in practice implementing free-market logic. This creates an "implementation gap," where the noble goal of empowering the small populace fails to materialize because the policy instruments chosen ultimately reinforce the existing structure ([Hudson et al, 2019](#); [Slamet et al., 2017](#)).

The urgency of this research lies in the significant impact of the change in the MSMEC policy paradigm. If the dominant orientation or logic underlying the regulatory framework focuses only on administrative ease and ignores the deeper needs of MSMEs and Cooperatives, the policy risks creating many MSMEs and Cooperatives that are legally valid but remain weak and uncompetitive. This will actually widen the gap between micro-businesses that struggle to develop and large companies that are being favored. Moreover, the neglect of the "People's Economy" spirit in this policy deviates from the constitutional mandate, which can undermine social justice. Therefore, examining and correcting this policy direction is not merely an academic discourse but a concrete step to ensure that MSMEs and Cooperatives can truly build a national economy that is just and strong.

Based on this change in the MSMEC policy logic, this research aims to critically analyze the alignment or misalignment between the current MSME empowerment regulatory framework and the fundamental principles of the People's Economy and the rules of good public governance.

Furthermore, this research seeks to formulate a policy reconstruction framework that can restore the spirit of the people in MSME empowerment. To achieve this goal, the research is guided by two main research questions. First, to what extent do the MSME empowerment policies reflected in the (1) 1945 Constitution, Law Number 20 of 2008 concerning MSMEs, (2) Law Number 11 of 2020 concerning Job Creation, and (3) Government Regulation Number 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises (MSMEs), reflect the fundamental principles of the People's Economy? Second, what conceptual and normative reconstruction can be proposed to strengthen the people-oriented and participatory orientation in MSME empowerment policy in Indonesia?

LITERATURE REVIEW

Theory of the People's Economy

The People's Economy (Ekonomi Kerakyatan), first introduced by Mohammad Hatta, is more than just an alternative economic system; it is a political economic ideology rooted in the philosophy of Pancasila and the 1945 Constitution ([Rinawati, 2020](#)). This idea emerged as an antithesis to two contemporary economic structures: the exploitative colonial economic structure and the liberal capitalist system that tended to centralize wealth in the hands of a few ([Suyono, 2021](#)).

The fundamental principles of the People's Economy encompass several core elements. First, people's sovereignty over economic resources, which means that the important branches of production and natural resources vital to the livelihood of the people must be controlled by the state and used for the greatest possible prosperity of the people ([Baswir, 2015](#)). This is a constitutional mandate that positions the state as the guardian of the nation's collective assets. Second, social justice and equitable asset distribution, which actively opposes unlimited capital accumulation and encourages state intervention to ensure every citizen has fair access to productive assets, such as land and capital ([Karimi, 2024](#)). Third, active community participation in the entire economic process, where the people are not passive objects of development but sovereign subjects in determining their economic direction ([Kader, 2018](#)). The principle of community solidarity (*kekeluargaan*) and mutual cooperation (*gotong royong*), which places cooperation, solidarity, and collective interest above the individualistic competition that characterizes capitalism ([Puspasari, 2025](#)). As its primary institutional embodiment, Hatta consistently designated the Cooperative as the "soko guru" or main pillar of the national economy, a business entity owned and managed democratically by its members for mutual benefit ([Pulungan, 2019](#)).

Conceptually, the People's Economy positions itself as a middle way, an understanding adapted to the Indonesian context, between the two poles of major economic ideologies: capitalism and

socialism ([Bahri, 2023](#)). Unlike capitalism, which delegates resource allocation to market mechanisms and the invisible hand, the People's Economy demands an active and affirmative role for the state to ensure justice and correct market failures. The state must not be neutral; instead, it must side with the weak. However, unlike state socialism, which places all means of production under centralized state ownership and control, the People's Economy still recognizes and protects individual property rights and initiative, as long as they do not sacrifice collective interests and create extreme inequality ([Juliyanto et al, 2024](#)). Within the Indonesian context, with its communal social structure and strong values of mutual cooperation, this paradigm is considered to have high cultural and historical relevance. Amid rising national and global economic inequality, principles such as social justice and asset distribution are becoming increasingly urgent to reconsider as the foundation of national economic policy ([Styaningrum, 2021](#); [Yusri, 2014](#)).

MSME and Cooperative Empowerment Policy

The term "empowerment" is a complex and often multi-interpreted concept in public policy discourse. Critically, a distinction must be made between top-down and bottom-up approaches to empowerment ([Safitri & Syahara, 2021](#)). The top-down approach positions the government as the main actor that designs and distributes programs, aid, or facilities to MSMEC, which are positioned as passive recipients. This model often manifests in the form of subsidized credit programs, equipment assistance, or technical training designed centrally without deep participation from the target recipients ([Ibrahim, 2022](#)). Although often based on good intentions, this approach has several inherent weaknesses: the programs are frequently not aligned with real needs on the ground, they create dependency, and they fail to build long-term capacity. Conversely, the bottom-up approach positions the government as a facilitator tasked with building the capacity, critical awareness, and collective power of the community (MSMEC actors) itself. The goal is not merely to give "fish," but to provide a "fishing rod" and, more importantly, to ensure that the "pond" is fairly accessible to all.

Cooperative empowerment has a unique dimension compared to MSME empowerment. If MSME empowerment focuses on strengthening the business unit, Cooperative empowerment focuses on strengthening democratic institutions and active member participation. Effective Cooperative empowerment policy must address internal aspects, such as improving the quality of management human resources, modernizing management, and strengthening internal oversight systems, as well as external aspects, such as facilitating access to markets and capital. Law Number 17 of 2012 concerning Cooperatives serves as the primary legal foundation, defining Cooperatives as a people's economic movement based on the principle of community solidarity. However, in practice, policy has often failed to encourage Cooperatives to become self-reliant and highly competitive institutions, with many still relying on government assistance programs.

In line with the spirit of the People's Economy, the community-based empowerment model offers a more substantive and transformative alternative. This model emphasizes strengthening the assets owned by the community, such as financial, social, human, or natural capital, to be managed collectively for mutual benefit ([Mala et al, 2024](#)). Institutional forms such as BUMDes (Village-Owned Enterprises) and social enterprises are concrete examples of this approach. A social enterprise, for example, inherently integrates a social mission to empower the community with the principles of business sustainability, simultaneously acting as a bridge between social idealism and market realism. These models fundamentally seek to change power relations and build collective independence, not merely to increase individual income ([Mawardi & Pratama, 2023](#)). However, a general evaluation of national policies in Indonesia shows that existing MSMEC empowerment programs still tend to be dominated by the top-down approach, with a very large focus on financing aspects (such as Kredit Usaha Rakyat, a micro credit program) and technical training, which often run partially, are not integrated, and suffer from weak coordination among ministries/institutions ([Sholikin, 2024](#)). As a result, many programs overlap, miss the target, and fail to create sustainable impact.

Public Governance in MSME and Cooperative Policy

The effectiveness and fairness of a policy are determined not only by its substance but also by its formulation and implementation process. Therefore, the principles of good governance are crucial. The three main pillars of good governance are transparency, accountability, and participation ([Rahim, 2019](#)). Transparency demands openness of information regarding the decision-making process. Accountability demands responsibility from policymakers for the outcomes of the policies they implement. Meanwhile, participation—which often becomes the most neglected element—requires meaningful space for the public, in this case, MSMEC actors and other stakeholders, to be actively involved in the entire policy cycle, from problem identification and alternative formulation to implementation evaluation.

In the context of Cooperatives, public governance also intersects with the internal governance of the institution itself, known as Good Cooperative Governance. This principle emphasizes the accountability of management to members, transparency in financial management, and the active participation of members in the Annual Member Meeting (RAT) as the highest decision-making forum. Good public policy should not only regulate Cooperatives externally but also encourage and facilitate the strengthening of this internal governance. Unfortunately, many Cooperatives in Indonesia still face governance challenges, such as a lack of transparency, weak internal oversight, and low member participation, which ultimately hinders their performance and sustainability.

To analyze MSMEC policy, it's important to differentiate between two governance orientations: public service delivery and public empowerment. Public service delivery focuses on the government's

efficiency and effectiveness in providing public services to the community as "customers." Measures of success are speed, ease, and low cost, such as in the business licensing process ([Osborne, 2020](#)). Conversely, public empowerment focuses on increasing the capacity and sovereignty of citizens (of MSMEC) to determine and shape their own economic destiny. Here, the government acts as a facilitator and partner. The most ideal governance model for realizing public empowerment is collaborative governance. This model emphasizes synergy and equal partnership between the government, MSMEC actors, the private sector, academics, and civil society in a working network to solve public problems together ([Ansell & Gash, 2008](#)). It is this collaborative governance that is procedurally most aligned with the principles of community solidarity and mutual cooperation within the People's Economy.

Policy Foundation for MSME and Cooperative Empowerment

The analytical framework built upon the three theoretical pillars above will be applied to critically dissect the juridical foundation of MSMEC empowerment policy in Indonesia. The main focus of the analysis will be on four key pieces of legislation that represent this policy, which are 1) The Constitution of the Republic of Indonesia of 1945, specifically Article 33, as the philosophical and constitutional basis of the People's Economic system. (2) Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, as the representation of the basic policy framework for MSME empowerment. (3) Law Number 11 of 2020 concerning Job Creation (Omnibus Law), particularly the cluster that revises the MSME Law, as the turning point marking the shift in policy paradigm. (4) Government Regulation Number 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises, as the technical implementing regulation that operationalizes the spirit of the Job Creation Law.

RESEARCH METHOD

This research uses a qualitative research type with a descriptive-analytical approach. This approach was chosen because the research goal is to deeply understand the meaning, context, and process of the normative shift in public policy, not to mathematically measure causal relationships. Specifically, the approach employed is literature/library research combined with content analysis. This approach allows for the analysis of business empowerment policy as a coherent system of norms, while also critically scrutinizing those norms based on a higher framework of values or theory. In this case, the theory used are the People's Economy and principles of public governance.

The data analysis technique was carried out through three interconnected stages. The first stage is content analysis. In this stage, a careful and systematic exploration of every article within the three key regulations was conducted to explicitly identify the norms, objectives, principles, and institutional

mechanisms regulated concerning MSME empowerment. The second stage is thematic coding. Based on the conceptual framework developed in the literature review, a coding scheme was designed based on the fundamental principles of the People's Economy. These thematic codes include: "social justice," "asset distribution," "public participation," "role of the state," "strengthening collective institutions," and "market efficiency." Every relevant article or clause in the regulations was then coded according to the most dominant theme. The final stage is critical and hierarchical interpretation. The coded data were then compared across the three regulations to trace the shift in policy direction over time. The results of this analysis were critically interpreted to reveal the ideological assumptions underlying the regulations and to assess the extent of the gap between the written norms and the ideal framework of the People's Economy.

RESEARCH RESULTS

Analysis of the four main regulations, namely the 1945 Constitution; Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs); the Job Creation Law; and Government Regulation Number 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises, reveals a significant normative shift in the direction of MSME empowerment policy in Indonesia. This paradigm shift means the dominant orientation or logic underlying the regulatory framework has moved from a logic focused on economic empowerment, protection, and social justice toward a paradigm that prioritizes market efficiency and ease of doing business. The analytical process began with a content analysis of the articles, which yielded findings on the dominant logic reflecting the policy paradigm in each piece of legislation.

Constitutional Paradigm of Economic Empowerment in the 1945 Constitution

The 1945 Constitution (UUD 1945), particularly Article 33, is the basic norm that serves as the philosophical foundation for all economic policies in Indonesia, including the empowerment of MSMEs and Cooperatives. Paragraph (1) of Article 33, which states that "The economy shall be structured as a joint endeavor based on the principle of community solidarity," explicitly rejects liberal individualism and establishes collectivism as the foundation. This "principle of community solidarity," as interpreted by Hatta, is embodied by the Cooperative. Paragraphs (2) and (3), which assert that "Branches of production that are important to the state and control the livelihoods of the majority of the people shall be controlled by the state" and "The land and the waters and the natural riches contained therein shall be controlled by the state and utilized for the greatest prosperity of the people," mandate an active and affirmative role for the state. The state is not positioned as a neutral regulator but as an instrument to achieve social justice and collective prosperity. Thus, the

constitutional paradigm of economic empowerment is state intervention that sides with the people to ensure the fair distribution of resources and the strengthening of collective economic institutions.

The UUD 1945 also requires the state not merely to guarantee economic growth but to ensure that this growth is inclusive and empowering to the people. In the context of MSMEs, the constitution not only provides the legitimate basis for state intervention but also contains the moral mandate that economic policy must be directed towards reducing inequality and creating a more democratic economic structure. Therefore, every policy concerning MSMEC must ideally internalize this principle, not only in the rhetorical aspects but also in the institutional structure and resource allocation. Unfortunately, in practice, Article 33 is often disregarded as the normative reference framework in the formulation of contemporary MSMEC policy, especially in the post-reformasi era (post-1998) which has increasingly emphasized market mechanisms.

Paradigm of Protection and State Preference in Law Number 20 of 2008

Law Number 20 of 2008 is viewed as representing the initial paradigm of MSME policy, one that explicitly adopted the language and spirit of the People's Economy. This is evident in its preamble, principles, and objectives. The Preamble of this Law explicitly states that national economic development must be based on economic democracy to achieve a just and prosperous society. Furthermore, Article 2 of this Law stipulates that MSMEs are founded on the principles of "community solidarity," "economic democracy," and "collectivism," which are core terminologies of the People's Economy concept. Article 3 explicitly states that the goal of MSME empowerment is to "grow and develop their businesses in the framework of building a national economy based on equitable economic democracy." The phrase "equitable economic democracy" indicates that the policy goal is not limited to mere economic growth but also encompasses equitable distribution and justice.

The spirit of state preference (*keberpihakan*) is also strongly reflected in its various articles. Chapter V on Fostering a Business Climate mandates the government to create a conducive climate, including providing protection from unfair business competition potentially carried out by large businesses. Article 35 explicitly prohibits Large Businesses from owning and/or controlling MSMEs that become their business partners, a protective clause designed to prevent exploitation in asymmetric partnership relationships. Additionally, this Law regulates various forms of government facilitation, ranging from funding (Articles 8 and 22), simplification of licensing (Article 12), to development in production, marketing, and human resources (Article 17). Normatively, this Law positions the state as an affirmative actor with the obligation to protect, foster, and empower the people's economy.

The normative strength of Law Number 20 of 2008 lies in the paradigm that declares the state's position as the protector of MSMEs. Although many articles are declarative, this position is important in forming the collective perception that small economic actors are not marginal entities that must adapt to the free market, but rather are the main subjects of economic development. This is evident in the state's recognition of the need for affirmative action, such as partnership schemes and protection from unfair competition. However, the implementation of this spirit was hampered by the weak capacity of local bureaucracy in implementing the policy, as well as the lack of an accountable monitoring mechanism. Furthermore, within the institutional framework, the lack of integrated policies across sectors (e.g., between the ministries of trade, cooperatives, finance, and regional agencies) resulted in fragmented empowerment.

However, on the other hand, this Law was also weak and not comprehensive in its implementation. Many normative-idealistic provisions were not balanced with strong legal enforcement mechanisms and effective sanctions. For instance, the prohibition against control by large businesses in Article 35 proved difficult to monitor and enforce in the field, often because the definition of "controlling" was unclear and the unequal power relation left MSMEs unable to report. Moreover, mechanisms to ensure public participation in the formulation of derivative policies were also not detailed, meaning its populist spirit often failed to materialize in practice. The resulting policies tended to be top-down and did not always address the real needs of MSMEs. Thus, although Law Number 20 of 2008 is very much in line with the People's Economy in spirit, weaknesses in its implementation design and enforcement constituted a significant gap.

Paradigm of Market Efficiency in the Job Creation Law (MSMEC Cluster)

Law Number 11 of 2020 concerning Job Creation serves as a turning point that fundamentally alters the direction of MSMEC empowerment policy. If Law Number 20 of 2008 placed "equitable economic democracy" as the main objective, the preamble of the Job Creation Law explicitly places MSMEC empowerment within a larger framework: "improving the investment ecosystem and business activities" and "accelerating national strategic projects." This shift in priority directly impacts the policy substance. The primary focus shifts from structural protection oriented toward social justice to procedural facilitation oriented toward market efficiency.

The policy instruments introduced are more geared towards market efficiency than distributive justice. For example, the introduction of a Single Business Permit through the electronically integrated Business Identification Number (NIB) (Online Single Submission) aims to cut bureaucracy and expedite the business legalization process. While positive in terms of efficiency, this approach assumes that the main obstacle for MSMEC is administrative issues, not structural problems like access to capital or market inequality. The Job Creation Law also introduces the ease of establishing

Limited Liability Companies (PT) for micro and small enterprises that can be founded by one person. This policy, instead of strengthening collective economic institutions like the cooperative, which is the soul of the People's Economy, actually further encourages an individualistic business model oriented toward private capital accumulation. The spirit of "community solidarity" and "collectivism" that were the principles of Law Number 20 of 2008 are normatively shifted by the spirit of corporate individualism. This shift aligns with the criticism that deregulation policies often adopt a market capitalist logic that contradicts the collectivist spirit of the People's Economy ([Bahri, 2023](#)).

Substantively, the Job Creation Law uses the term "empowerment" repetitively. However, in substance, its main orientation is the simplification of regulations and the acceleration of business processes. The logic adopted is that MSMEC will grow if they are given administrative ease and legal certainty. However, this approach tends to overlook the reality that MSMEs need not only quick permits but also structural protection and equal access. Furthermore, the enforcement of articles that equate MSMEC with large business entities in market competition carries the risk of pushing MSMEs into an unbalanced competitive landscape. Within the framework of the People's Economy, this marks a shift from structural empowerment to merely symbolic empowerment.

Furthermore, the process of forming the Job Creation Law itself through the omnibus law method drew sharp criticism from business actors who deemed it to have minimal public participation, a direct contradiction to the principle of economic democracy. This process, viewed as rushed and nontransparent, disregarded the voices of business actors, civil society organizations, and MSME associations themselves, who should have been the main subjects of this policy. Thus, both from the perspective of substance and process, the Job Creation Law signals a paradigm shift that distances MSMEC empowerment policy from the philosophical roots of the People's Economy.

Paradigm of Ease in Government Regulation Number 7 of 2021

Government Regulation (PP) Number 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises (MSMEC) serves as the technical implementing regulation that operationalizes the paradigm promoted by the Job Creation Law. Although its title still uses the progressive terminology "Ease, Protection, and Empowerment," analysis of its substance reveals the dominance of technocratic and administrative logic. Empowerment in this Government Regulation is translated into a series of services provided by the government (public service delivery). Examples include providing legal aid and assistance services for MSMEs (Article 48), developing a single MSME database (Article 67), and mandating a minimum allocation of 40 percent of government goods/services procurement spending for MSME and Cooperative products (Article 63).

While these programs are beneficial, their orientation is toward making the government an efficient service provider, not a facilitator that builds the strength and sovereignty of MSMEs from the grassroots (public empowerment). A fundamental shift has occurred, where the terminology of "empowerment," which originates from social movements aimed at changing power structures, is now used to legitimize policies focused on improving bureaucratic efficiency and market facilitation. This approach implicitly maintains the status quo of the power relationship between MSMEs and the market and state, where MSMEs remain positioned as the object of policy, not a sovereign subject.

As the implementing regulation of the Job Creation Law, Government Regulation Number 7 of 2021 carries a more pragmatic spirit, namely simplifying MSMEC access to government services and the market. However, the empowerment envisioned in this PP is technocratic and based on top-down public services. For example, programs like "business assistance" are oriented more as bureaucratic projects than as a people's economic organizing movement. There are no articles that explicitly contain strategies for the collectivization of MSME actors within community-based economic institutions such as cooperatives or BUMDes (Village-Owned Enterprises). Yet, from the perspective of the People's Economy, the strengthening of collective institutions is the main instrument for correcting structural economic power relations. Thus, this PP, despite containing many incentives, risks entrenching the status quo rather than transforming those economic power relations.

To summarize the normative shift described above, the next stage of analysis is thematic coding along with critical and hierarchical interpretation based on the codes established. The hierarchical analysis table for the operationalization of regulations based on the principles of the People's Economy is presented below, as in Table 1.

Table 1. Hierarchical Analysis of the Operationalization of MSME Empowerment Regulation Based on the Principles of the People's Economy

Principle of People's Economy	1945 Constitution	Law Number 20 of 2008	Job Creation Law (MSME Cluster)	Government Regulation Number 7 of 2021
Social Justice and Asset Distribution	Mandates the economy for the "prosperity of the people." The state controls vital resources to prevent wealth concentration.	Emphasizes the goal of "equitable economic democracy" (Article 3). Partnership clauses exist, but implementation is weak.	Focuses on general "ease of doing business." No explicit clauses on asset redistribution. The principle of justice is superseded by the principle of efficiency.	Regulates supply chain partnerships (Article 106), but it is more about market facilitation, not intervention for distributive justice.
Economic Sovereignty and Public Participation	The economy is structured as a "joint endeavor" (Paragraph 1), indicating	Principles of "collectivism" and "economic democracy" (Article 2). However,	The formation process via the <i>omnibus law</i> method was criticized for minimal public	Implementation is top-down. MSME participation is mainly as recipients of programs, not as

	collective participation and popular sovereignty.	mechanisms for participation in policy formulation are not regulated in detail.	participation. Focus is on centralization and acceleration.	equal partners in policy design.
Role of the State	The state "controls" important branches of production and natural resources (Paragraphs 2 & 3), demonstrating an active role siding with the people's prosperity.	The state is positioned as fostering a conducive business climate with state preference (Chapter V). Provides protection from unfair competition.	The state's role is more as a market facilitator and deregulator. State preference is pursued through simplification, not active protection.	The state provides services (legal aid, single data, NIB facilitation) which are service delivery in nature, reducing the role of structural intervention.
Strengthening Collective Institutions	The "principle of community solidarity" (Paragraph 1) is interpreted as the Cooperative, indicating a constitutional preference for collective economic institutions.	Partnership is regulated but does not specifically promote collective institutions like cooperatives as the main subject of empowerment.	Cooperatives are mentioned, but the main focus remains on individual "business actors." The ease of establishing single-person limited liability companies (PT) encourages individualism.	Regulates ease for cooperatives, but the largest portion of the regulation still targets MSMEs as individual units.

Source: Analysis results, 2025

DISCUSSION

The research findings from the regulatory analysis and thematic coding indicate that there has been a shift in meaning concerning the concept of empowerment within MSMEC policy in Indonesia. The currently enforced policy, with its strong emphasis on procedural ease and administrative efficiency, offers solutions to some technical problems faced by MSMEC, such as lengthy permit processing times or bureaucratic complexities. However, this fundamentally fails to address the structural root problems that have long constrained MSMEC and Cooperatives: unequal access to productive resources and a weak collective bargaining position when facing concentrated market power. The dominance of the market-based support approach has systematically sidelined the alternative approach based on solidarity and community-empowered development, which is, in essence, the core spirit of the People's Economy.

This shift in meaning does not negate the importance of efficiency. Certainly, a lean bureaucracy and quick licensing processes are positive. However, from the perspective of social justice, when efficiency becomes the sole important aspect, it risks becoming an ideology that obscures unequal power relations. This approach implicitly adopts the neoliberal assumption that all economic actors are rational and equal *homo economicus* who only require freedom from state intervention to thrive. This assumption ignores the fact that MSMEC and large businesses do not start

their endeavors from the same starting point. Without affirmative state intervention to level the playing field, the granted slogan of "ease" will only further benefit those who are already strong, while the weak will be increasingly marginalized in unfair competition. This is the essence of the shift from "empowerment" to "facilitation"—a move from efforts to change the structure to merely lubricating the wheels of the existing structure.

Amid global uncertainty, rising domestic inequality, and supply chain fragility, the relevance of the People's Economy values is, paradoxically, growing stronger. Principles such as economic sovereignty and public participation are no longer just ideological legacies of the past, but a potential alternative paradigm for building a more resilient, inclusive, and sustainable development model. Ignoring these values for the sole pursuit of market efficiency risks perpetuating a skewed economic structure, where, from the perspective of collective institutions, MSMEC will remain "stunted" and dependent on the mercy of the market or government aid, instead of becoming sovereign economic subjects. Therefore, a conscious effort is required to reconstruct and restore the holistic meaning of empowerment within the public policy framework.

The new conception of MSMEC empowerment proposed in this study is based on three interconnected reconstruction pillars strongly rooted in the philosophy of the People's Economy and the principle of participatory public governance. Those pillars are: (1) Empowerment through Distribution of Assets and Productive Access: This reconstruction demands that policy move beyond the paradigm of micro-credit or mere business assistance. Empowerment begins with creating a fair competitive arena (level playing field). Empowerment requires affirmative and planned state intervention to distribute access to crucial productive assets. Policy must proactively design schemes that ensure MSMEC have equal access to land for business (e.g., through agrarian reform programs favoring small farmers and craftsmen), symmetrical market information (e.g., by building open data platforms), and relevant technology adoption (through intensive business incubation and mentorship, not just single-day seminars). This is no longer merely "aid," but a just strategy to correct market failures and income inequality. (2) Empowerment through Democratic and Cooperative Institutions: This shifts the focus from individual business units to the strengthening of collective economic institutions. Public policy must explicitly provide greater incentives, both fiscal and non-fiscal, for MSMEC organized in the form of Cooperatives, Village-Owned Enterprises (BUMDes), or Social Enterprises. These institutions are not just business entities but are vehicles for developing economies of scale, accumulating social capital, strengthening collective bargaining power against suppliers and buyers, and practicing economic democracy at the grassroots level. By encouraging the strengthening of collective institutions, policy will help MSMEC escape the trap that makes them weak against market forces. (3) Empowerment through Participatory Governance: This addresses the policy

process aspect itself. Empowerment will never be attained if MSMEC continue to be positioned as passive objects of policies designed in closed technocratic spaces. Fundamental reform is needed in the formulation, implementation, and evaluation process of MSMEC policy. The state must transform from a mere service provider into a facilitator within a collaborative governance ecosystem. In this ecosystem, MSME associations, cooperative representatives, academics, and civil society organizations must be recognized and institutionalized as equal partners in every stage of the policy cycle. This means giving them a seat at the negotiation table, not just inviting them to dissemination sessions after all key decisions have been made.

Ultimately, the success of MSMEC empowerment policy cannot be measured solely by the number of business permits issued or the credit funds disbursed. More important indicators are the extent to which the policy is capable of changing the unequal economic structure to a more equitable one, the extent to which MSMEC actors have a voice in policy formulation, and the extent to which collective economic institutions grow and become self-reliant. In many cases, government aid programs actually create dependency because they are not accompanied by knowledge transfer, institutional strengthening, or business sustainability guarantees.

The transformative empowerment model proposed is based on structural and cultural approaches. Structurally, reform is needed in the financing system and market access that favors weak economic actors. For instance, state financing institutions need to design financial products that align with the business cycles of community-based MSMEs, rather than just providing standard loan schemes that are irrelevant to the characteristics of the informal sector. Culturally, a paradigm shift is required in public governance, moving from a bureaucracy that serves projects to a bureaucracy that fosters communities.

The new approach to MSME empowerment must also position business actors not as statistical objects, but as transformative actors. When MSMEs are given the space to design their own agendas, the opportunity for local-based innovation will be greater. This is where the integration between national policy and local initiatives becomes crucial. The central government needs to provide the normative framework and resources, while regional governments act as adaptive implementers according to the specific characteristics of their respective areas.

In this context, the mechanism of collaborative governance becomes highly relevant. Collaborative governance is not just a slogan; it is an institutional approach that allows the state, MSME actors, academics, and civil society to sit together to formulate a common agenda. This requires an institutional design that allows this involvement to be permanent, not just incidental consultation forums.

Furthermore, the success of policy reconstruction is also heavily determined by cross-sector integration. Empowerment policy cannot solely be the domain of the Ministry of Cooperatives and SMEs, but must involve other ministries such as Trade, Finance, and even Agriculture, as MSMEs do not operate in a vacuum. Therefore, strong and data-based cross-sector policy coordination is needed to prevent policies from overlapping or negating each other.

Finally, the analysis also advocates for a change in the policy evaluation framework. Currently, many evaluations only focus on budget absorption or administrative output. However, genuine empowerment requires measuring impact (outcome) and sustainability. For example, the success of MSME training should not only be measured by the number of participants but by the increase in business capacity and production networks formed post-training.

CONCLUSION

Based on the analysis conducted, two conclusions can be drawn. First, MSME and Cooperative empowerment policy in Indonesia has undergone a significant paradigm shift, moving away from the constitutional mandate enshrined in Article 33 of the 1945 Constitution. A normative transition has occurred from the spirit of protection and state preference, grounded in the principle of equitable economic democracy as implied in Law Number 20 of 2008, towards an approach that primarily emphasizes market efficiency, deregulation, and procedural ease. This shift has effectively trivialized the meaning of "empowerment" from a transformative effort to change structural inequality into mere administrative facilitation. Second, the current policy approach, while offering some technical improvements, proves insufficient to overcome the structural root problems faced by MSMEs and to realize the ideal of social justice mandated by the constitution. The focus on efficiency and ease of doing business has sidelined crucial elements of the People's Economy, such as the strengthening of collective institutions, fairer asset distribution, and public participation in the policy process. Therefore, a fundamental conceptual and normative reconstruction is necessary to return MSME empowerment policy to its proper course, namely a policy founded on community-based empowerment and implemented through participatory and collaborative governance mechanisms.

As a follow-up to the conclusions above, it is recommended that the legislature and the government undertake a revision and harmonization of regulations related to MSMEs, especially Government Regulation Number 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and MSMEs, and the relevant articles in the Job Creation Law. This revision should explicitly reintroduce the principles and indicators of social justice, economic distribution, and the strengthening of collective institutions such as Cooperatives and social enterprises, in accordance with the mandate of Article 33 of the 1945 Constitution.

In parallel, relevant technical ministries and institutions need to build structured and meaningful public participation mechanisms that go beyond ceremonial forums and grant real authority to MSME representatives throughout the policy cycle.

At the local level, regional governments, along with associations and MSME actors, must proactively initiate and expand the ecosystem of community-based economic institutions, such as Cooperatives, Village-Owned Enterprises (BUMDes), and social enterprises, as the foundation for building a local economy that is more resilient, self-reliant, and sovereign.

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