

## The Role of the Ministry of Industry as the Main Stakeholder in the Development of IKM Centers in Indonesia

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### ABSTRACT

**Keywords:** the ministry of industry; IKM center; small and medium industries; economic development; the role of the government.

Small and medium industries (SMEs) are vital sectors in Indonesia's economy, with significant contributions to Gross Domestic Product (GDP) and job creation. The IKM Center, which groups small and medium-sized business units in one location, is expected to improve production efficiency and industrial competitiveness. However, many centers are experiencing problems in management and revitalization. This research aims to explore the role of the Ministry of Industry as the main stakeholder in the development of IKM Centers in Indonesia. Using a descriptive qualitative approach, this study examines the role of the Ministry of Industry as a regulator, facilitator, catalyst, investor, and strategic planner in developing SME Centers. The results of the study show that although the IKM Center has great potential, there are still challenges in policy implementation and management that require revitalization. The government is expected to continue to strengthen its role to support the sustainability and growth of the IKM Center in the long term.



### Introduction

The Industrial Sector is the engine that drives a country's economy. Industry is defined as a process that provides added value or higher benefits to raw materials. Industrial activities have an impact on the absorption of labor and the welfare of business actors and lead to state income or Gross Domestic Product (GDP) (Maulidia et al., 2023). The dominance of the industrial sector is also closely related to the high economic growth rate which indicates that the country is increasingly advanced. So developing countries continue to strive to strengthen the industrial structure to increase their contribution to GDP (Rinta-Kahila et al., 2016).

The contribution of the industrial sector to high national economic growth is inseparable from the role of small and medium industries (SMEs). The national industrial structure is formed by 99.7 percent of industries with micro, small, and medium scales. The Ministry of Industry stated that the number of Indonesian SMEs reached 4.19 business units and was able to absorb a large workforce, which was 65.52 percent of the total national industrial workforce. SMEs are also considered to have great potential

because they have resilience beyond large-scale industries, especially in difficult times (Hutahayan, 2021) such as crises and pandemics, have flexibility in terms of adapting to market changes (Rinta-Kahila et al., 2016), resource use and process reconfiguration (Miroshnychenko et al., 2021) and SMEs are the starting point for the development of innovation and technology transfer (Smallbone et al., 2022).

In line with the increasing importance of SMEs in the country's economic development and to increase the productivity of SMEs, it is very important to strengthen the business organization of SMEs (Games et al., 2022) As well as develop and grow SMEs (Mamun, 2018). To implement it, efforts are needed that focus on improving the performance of SMEs to maintain and develop their businesses sustainably. Company performance or business performance is generally defined as the result obtained from the way a company achieves its strategic goals which can be measured from financial advantages, competitive advantages, and market share. (Olan et al., 2019).

To facilitate the development of the SME business, one of the efforts of the Central and Regional Governments is to help build SME centers. According to PP 29 of 2018 related to Industrial Empowerment, an IKM center is a group of SMEs in one area or place consisting of at least 5 business units that create similar products, use similar raw materials, and/or carry out the same creation process (Sedyastuti, 2018). The 2020 Indonesian Industrial Center List published by BPS states that the total number of SME centers in Indonesia is 13,762 out of 516,124 business units. The basic goal of the development of industrial centers is to equitably distribute and accelerate industrial and economic development in Indonesia. (Asmara, 2018).

The IKM Center is the gateway to a strong national industrial structure. Building a center requires a large budget and careful preparation. Not only building physical facilities but also preparing human resources and the region or region itself. (Ananda, 2018). So that the Ministry of Industry, which is an agency that is given the mandate to build industrial centers, must focus on developing strategies so that they are not only large in number but also effective in accelerating their empowerment. From the managerial side, it must also be more efficient so that operations are more structured and orderly. So that the products produced have high competitiveness. The government also cannot run alone. (Wahyudi, 2016). The private sector or large industry helps small business actors to advance and develop through knowledge sharing and must also take a role in, collaborate, or participate in facilitating from the technology side.

As a result of the evaluation from the Ministry of Industry and business actors, many industrial centers were abandoned after being established, such as damaged facilities and management systems that no longer work (Indonesia, 2015). In fact, in one industrial center, the management is handed over to business actors consisting of administrators, managers, members, and technical services of the center. However, this institution is still not optimal in improving the performance and quality of SMEs. There is still a hampered supply chain and this indicates a weak structure. The Ministry of Industry noted that more than 70% of industrial centers need to be revitalized so that their functions run as the original goal of industrial center development, namely the growth of

new industries, equal distribution of industries, and strengthening of the national industrial structure.

The purpose of this study is to explore the role of the Government in the implementation of the development of IKM Centers in Indonesia.

## **Method**

This study uses a descriptive qualitative method to examine the role of the Ministry of Industry in the development of IKM Centers in Indonesia. The descriptive qualitative method is used because this study aims to explore in depth how the government, especially the Ministry of Industry, plays a role in supporting the development of IKM Centers, both in terms of policies, regulations, and program implementation.

### **Research Steps**

#### **Data Collection**

**Primary Data:** Interviews with relevant stakeholders, such as officials at the Ministry of Industry, managers of IKM Centers, and SME business actors who are members of the center.

**Secondary Data:** Data collection from official documents, such as laws, and government regulations, as well as publications and reports from the Ministry of Industry related to the development of IKM Centers. Data from BPS and the annual report of the Ministry of Industry will also be used.

#### **Data Analysis Techniques**

The collected data is analyzed using thematic analysis, namely by identifying the main themes that emerge from the data, such as the role of the Ministry of Industry as a regulator, facilitator, catalyst, and investor.

SWOT analysis can also be used to evaluate strengths, weaknesses, opportunities, and threats in the development of SME Centers in Indonesia.

#### **Data Validation**

Validation is carried out through triangulation techniques, namely by comparing the results of interviews with secondary data from official documents to ensure the accuracy and consistency of the data.

### **Results and Discussion**

The results of the study will present a comprehensive overview of the role of the Ministry of Industry and how the policies and implementation of the SME Center program have an impact on the development of small and medium industries in Indonesia.

## **Results and Discussion**

To realize economic improvement through the IKM Center, stakeholder involvement is very necessary. In the most basic concept of governance, it is stated that three main stakeholders interact with each other and carry out their respective functions, namely the state (state or government), the private sector (private sector or the business world), and society (society). Government institutions function to create a conducive

political and legal environment, the private sector creates jobs and income, while the community plays a role in building social, economic, and political interactions, including inviting community groups to participate in economic, social, and political activities.

### **The Role of the Ministry of Industry in the Implementation of the Development of IKM Centers in Indonesia**

The Indonesian government, through the Ministry of Industry, plays a very strategic role in the development of Small and Medium Industries (SMEs) centers. The IKM Center is an industrial activity center that groups several small and medium business units in one location to improve the efficiency of production, marketing, and product development. By the mandate of Law Number 3 of 2014 concerning Industry, the Ministry of Industry is given a mandate to carry out the empowerment of small and medium industries (SMEs), one of which can be done by building an IKM center. In carrying out the mandate of the Law, there are several important roles of the Ministry of Industry in the following cases:

a. Government as a Regulator

namely producing policies related to the Industrial Center, be it human, industrial, institutional, intermediation, and resources and technology. Through regulations produced by the Ministry of Industry such as Government Regulation Number 29 of 2018 concerning Industrial Empowerment, Regulation of the Minister of Industry Number 14 of 2021 concerning the Development of Small and Medium Industries in IKM Centers Through One Village One Product, and Regulation of the Minister of Industry Number 7 of 2023 concerning Technical Instructions for Strengthening the Institutional Capacity of Small and Medium Industry Centers through Special Allocation Funds Non-physical for the 2023 Fiscal Year, the Government through the Ministry of Industry can accelerate the development and growth of the industry through Industrial Centers. Through these regulations, it is hoped that it can create a conducive business climate for the industry.

b. Catalysts and Facilitators.

In this case, the government provides stimulus, challenges, and encouragement, so that business ideas move to a higher level of competence.

The form of this catalyst is the implementation of national programs including the OVOP Program and the Revitalization of Small and Medium Industry Centers. SME centers generally describe locations that have raw materials and human resources that can meet the production process at the industrial level. This means that raw materials are sufficient to create products with certain economies of scale, skilled human resources in large quantities, and the existence of several SMEs in groups to fill certain production value chains. The OVOP (One Village One Product) program that was initiated then became a whip for business actors and local governments to recognize the potential of their regions and markets and, of course, to initiate to production of superior products by the potential of the region or region. As for the IKM Center Revitalization Program, it was initiated based on the physical condition of 70% of the centers that have been built in Indonesia that are damaged and unmaintained. The revitalization of the IKM Sntra will target the physical of the center from the implementation of GMP (Good Manufacturing

Practice), including industrial waste disposal and targeting the management or management of the institution or structure of the center. This is very important because improving the management and management of a more professional center will make it easier for its members to develop their industries related to licensing, halal certification, HACCP, IMD, SNI, and so on. With the facilitation of the above elements, business actors will be more concerned about their business development. In addition, the government, both central and regional, can also take a role in encouraging partnerships and collaboration between large industries and small industries. Small industries through the center can supply raw materials for large industries, large industries can transfer technology and innovation to small industries.

c. The government as an investor.

It was explained that the government must be able to empower state assets to be productive in the industrial scope and be responsible for industrial infrastructure investment. Concretely, this activity is to help fund the activities of the IKM center, both development and revitalization, and synergize with programs across ministries and institutions through the central budget (APBN), regional (APBD) such as the Physical and Non-Physical Special Allocation Fund (DAK) in the IKM sector. Some activities to improve physical facilities and infrastructure, such as the construction of production houses, UPTs, packaging houses, machinery and equipment, and others. The scope of the physical DAK of this year's IKM Center consists of two menus, namely the construction of the IKM center and the revitalization of the IKM center.

d. Strategic Planner.

This is related to the Compiler of the Industrial Center Development Master Plan. The IKM Center Development Strategy has always been a Priority in the Direction and Policy of Industrial Development. In this case, it is stated in the RIPIN (National Industrial Development Master Plan) of the Ministry of Industry, the RPJP and RPJM of the Ministry of Industry, and the Strategic Plan of the Ministry of Industry. The purpose of all these plans or master plans is to encourage the growth of existing industries to strengthen the national industrial structure. The importance of empowering small and medium industries is implemented in the strategy of forming institutions (organizations and work procedures) that specifically handle small and medium industries at the echelon 1 level in the Ministry of Industry, namely the Directorate General of Small, Medium, and Miscellaneous Industries.

By adopting the role of regulator, catalyst, facilitator, investor, and strategic planner, the government ensures that SME centers can develop and contribute significantly to the national economy. This analysis confirms that a holistic approach involving cross-sector cooperation and the use of technology is the key to success in developing SME centers and achieving inclusive and sustainable industrial development goals.

However, to strengthen the role of the government in implementing the development of IKM centers in Indonesia, several additional aspects need to be considered, including:

a. Integration of Inter-Ministerial and Institutional Programs

Cooperation across ministries and institutions is very important to optimize resources and ensure that the SME development program runs synergistically.

Utilization of Information and Communication Technology (ICT)

The use of digital technology in the operation and marketing of SMEs must be further improved. The government can facilitate SMEs' access to e-commerce platforms and other digital technologies to expand markets and improve production efficiency.

b. Strengthening Supply Chain

The government must encourage vertical and horizontal integration in the SME supply chain. This includes cooperation between SMEs and large industries as well as the development of interrelated industrial clusters to create a strong and competitive industrial ecosystem.

c. Monitoring and Evaluation

The government needs to implement effective monitoring and evaluation mechanisms to measure the success of implemented programs and policies. Accurate data and information are essential for making evidence-based decisions and identifying areas that need improvement.

**Objectives of the Ministry of Industry in the Development of IKM Centers in Indonesia**

The industrial area development policy is one of the efforts of the Government of Indonesia in terms of accelerating the equitable distribution of industrial areas using a spatial approach, this is by what is contained in Law No. 3 of 2014 concerning Industry and Government Regulation No. 14 of 2015 concerning the National Industrial Development Master Plan (RIPIN). One of the programs contained in the regulation is the construction of Small and Medium Industry Centers (IKM).

This policy is carried out in every Regency/City area in an area where it is not possible to build an industrial area. This is because it is not technically and economically feasible and is directed to support large industries, generate added value, absorb labor, and support the use of local resources and industries that support regional superior/priority industries.

Small and Medium Industry Centers (IKM) are places to combine small and medium industry activities that produce the same goods, use the same raw materials, apply the same production process, and have supporting facilities and infrastructure.

The purpose of the development of the Small and Medium Industry Center (IKM) is to develop and grow new SMEs and accelerate the spread of industrial equity throughout Indonesia (Government Regulation No. 123 of 2016 concerning Technical Instructions for Physical DAK). Due to the existence of an integrated system and reducing capital barriers, the existence of the IKM Center is expected to make it easier to carry out business activities (Ellita, 2022).

The policy of developing SME centers is a strategic step that has several important implications for the national economy:

1. Optimization of Local Resources.

By directing the construction of IKM centers in areas that have local resource potential, the government can ensure that these resources are utilized optimally. This not only increases the added value of local products but also strengthens the regional economy.

2. Integration of production value chains.

The IKM center allows for better integration in the production value chain. By gathering various business units in one location, synergies between various stages of production can be optimized, from raw material processing to final product distribution.

3. Increasing the Competitiveness of SMEs

Through the provision of adequate infrastructure and supporting facilities, SME centers can increase the competitiveness of SME products in the domestic and international markets. Facilities such as training centers, testing laboratories, and access to cutting-edge technology are essential to improve the quality of SME products.

4. Creation of a Conducive Business Ecosystem

This policy also creates a conducive business ecosystem for SMEs. With regulatory support, access to financing, and training programs, SMEs can more easily develop and innovate. In addition, collaboration with major industries and research institutions can accelerate the transfer of technology and knowledge.

**Development of IKM Centers in Indonesia**

The IKM Center development program was carried out starting in 2016 in various locations and different industries. The dominant IKM centers are located on the islands of Sulawesi, Sumatra, and Nusa Tenggara. In terms of the investment process, the Small and Medium Industry Center (IKM), which is financed by the central government through the Special Allocation Fund (DAK), also depends on the proposal and support of the local government. The local government helps by providing land availability, compiling planning documents for the development of the IKM Center, providing operational funds, preparing the IKM that will occupy the IKM Center, and providing institutions and management. With a large government investment of 1.2 trillion rupiah from 2016 to 2019, there has been no evaluation of the impact of the development of the IKM Center, so it provides an opportunity.

Based on information provided by the Directorate General of Small, Medium, and Miscellaneous Industries (Ditjen IKMA) of the Ministry of Industry through the official website of the Ministry of Industry, there were 10,514 small and medium industry centers (SMEs) in Indonesia in 2020. With their business units reaching 456,488 SMEs, and 1,323,191 workers in the IKM center.





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