



The Correlation Between the Presence of MSMEs and the Minimum Wage in the Special Region of Yogyakarta in 2019

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are businesses based on creative industries. With a foundation in creativity, MSMEs can adapt to the current needs of society. MSMEs contribute significantly to the Indonesian economy by absorbing approximately 50% of the workforce. MSMEs have been growing rapidly across Indonesia, particularly in the Special Region of Yogyakarta. In 2019, there were 248,499 MSMEs recorded in this region. The large number of MSMEs in Yogyakarta provides significant employment opportunities and workforce absorption. However, despite the high number of MSMEs, a persistent issue for workers in the region is relatively low wages compared to other areas. The Regional Minimum Wage (UMR) in the Special Region of Yogyakarta was Rp 1,570,923 per month in 2019, making it the lowest in Indonesia. This poses a dilemma for the Yogyakarta regional government. Raising the minimum wage could potentially harm creative industries such as MSMEs, which might struggle with increased operational costs, including labor expenses. The authors seek to explore the correlation between the existence of MSMEs in Yogyakarta and the regional government's policy in determining the minimum wage, considering several aspects: 1) The number of MSMEs in Yogyakarta; 2) The number of workers absorbed by MSMEs; 3) The minimum wage in Yogyakarta; 4) The comparison between MSME revenues and labor costs. On average, MSMEs employ 1-2 workers, with monthly revenues averaging around Rp 4.3 million. This revenue is typically reinvested into operational expenses. If an MSME employs 1-2 workers, it needs to allocate Rp 1.5–3 million per month to pay wages. If the government raises the minimum wage, MSME operational costs would increase, potentially threatening the sustainability of these enterprises.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs), or UMKM, are businesses based on creative industries. MSMEs operate flexibly and are reactive to customer needs [1], making it necessary for them to adjust and stay updated with market demand. Furthermore, 86.33% of MSMEs in Indonesia

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are self-funded [2], meaning that the revenues or profits generated by MSMEs are reinvested as capital to sustain their operations. As enterprises catering to middle-to-lower economic segments, MSMEs also assist the government in absorbing the workforce. In developing countries, MSMEs contribute to employing around 50% of the workforce. In Indonesia, MSMEs account for 99.9% of all businesses [3], making their contribution significant in reducing unemployment by creating jobs. The benefits of MSMEs in job absorption are also evident in the Special Region of Yogyakarta (DIY). In 2019, MSMEs in DIY employed more than 480,000 workers. However, absorbing labor also means MSMEs must pay wages to the workers they employ. When paying wages, MSMEs must comply with government policies regarding the Minimum Wage, which is the legally mandated wage paid to employees [4]. Policy, in this context, refers to strategies and synergies implemented by the government to provide better services and impacts for society [5]. The Minimum Wage policy is designed to serve as a guideline for achieving shared objectives, given its foundational role [6]. Therefore, the Minimum Wage policy must balance the interests of both business owners and workers.

However, the wages paid by MSMEs to their employees rely heavily on the revenues they generate. With over 80% of MSMEs being self-reliant [2] and having annual revenues ranging between Rp 50 million and Rp 50 billion as defined by Law No. 20 of 2008, MSMEs need careful financial planning to align employee wages with the Minimum Wage policy. Mismanagement of wage planning can lead to an imbalance between monthly employee salaries and monthly revenues, which could result in financial losses for MSMEs due to their wage obligations.

The government, as the creator of public policies, plays a crucial role in determining the Minimum Wage policy. The wages businesses are required to pay their workers are regulated by government policies, particularly by local governments based on regional conditions. Since setting the Minimum Wage falls under the domain of public policy-making, the government must consider various aspects when formulating these policies [7]. Similar opinions emphasize that public policy-making, particularly regarding the Minimum Wage, must also take environmental, social, and economic aspects into account [8].

The Minimum Wage policy depends on the level of workforce absorption in the labor market [9]. Additionally, as workforce absorption increases, the Minimum Wage tends to decrease [10]. Both statements relate to MSMEs' operational needs, including their monthly revenues and labor costs. As independent businesses, MSMEs must adapt to market demands to maximize their monthly revenues, which are then used to cover operational costs, including employee wages. If employee wages are not excessively high, MSMEs can manage their operational costs more efficiently. Conversely, high wage costs can disrupt MSME operations and even lead to bankruptcy. Another opinion suggests that business owners consider wages as part of operational expenses that must align with the Minimum Wage policy. High wage costs may force businesses to reduce their workforce [11]. Considering these factors, the government is required to establish a Minimum Wage policy that accommodates both MSMEs and workers to provide solutions for both parties.

The Special Region of Yogyakarta (DIY), which had more than 248,000 MSMEs in 2019, faces another issue related to the Minimum Wage. In 2019, DIY had the lowest provincial minimum wage in Indonesia, amounting to approximately Rp 1.5 million. This raises the question of how DIY, as a province with over 240,000 MSMEs in 2019, simultaneously became the province with the lowest minimum wage in the country.

2. Method

This research employs a case study method with a qualitative approach. The object of the study is the Minimum Wage in the Special Region of Yogyakarta (DIY), focusing on the year 2019. The data used in this study consists of secondary data sourced from the Central Statistics Agency (BPS) and relevant articles. The findings are presented descriptively.

3. Results and Discussion

3.1. Number of MSMEs in the Special Region of Yogyakarta

Based on Sectoral Statistics Data regarding the MSME Profile in DIY published by Bappeda DIY, there were 248,499 MSMEs in DIY in 2019 [12]. The number of MSMEs in DIY is relatively high, especially when considering the geographical size of the region. Compared to East Java and West Java provinces, DIY covers less than 10% of the area of either province. However, while East Java and West Java were the provinces with the highest number of MSMEs in 2019, each with more than 500,000 MSMEs, the difference in MSME density compared to DIY is not significant.

3.2. Number of Workers Employed by MSMEs

The number of workers employed by MSMEs in DIY in 2019, based on Sectoral Statistics Data regarding the MSME Profile in DIY, reached 484,630 workers. If the total number of workers is averaged with the total number of MSMEs in DIY, each MSME employs approximately 1–2 workers. Based on this data, it is estimated that MSMEs face operational cost burdens in the form of wages for 1–2 employees each month.

3.3. Minimum Wage in the Special Region of Yogyakarta

Based on data published by the Central Statistics Agency (BPS) of DIY, the minimum wage (UMR) in DIY in 2019 was IDR 1,570,923 per month [13]. Within the region, there are four regencies and one city with variations in the Regency/City Minimum Wage (UMK) for 2019: 1) Yogyakarta City: IDR 1,848,400; 2) Sleman Regency: IDR 1,701,000; 3) Kulon Progo Regency: IDR 1,613,200; 4) Bantul Regency: IDR 1,649,800; 5) Gunungkidul Regency: IDR 1,571,000. From the data, it is evident that the UMK in DIY does not exceed IDR 2 million per month, with the highest being Yogyakarta City at IDR 1.8 million. In comparison, the UMR in East Java was approximately IDR 1.7 million, but some regencies/cities had UMKs exceeding IDR 3 million per month, such as Sidoarjo Regency and Gresik Regency [14]. West Java showed a similar trend, with a UMR of approximately IDR 1.6 million, but some regencies/cities, such as Karawang Regency and Bekasi City, had UMKs exceeding IDR 4 million per month [15]. This discrepancy is reasonable since, according to data from the Ministry of Industry, regions like Sidoarjo, Gresik, Karawang, and Bekasi are industrial zones, which generate larger revenues compared to MSMEs [16].

3.4. Comparison of MSME Revenues with Labor Costs

According to the Sectoral Statistics Data on the MSME Profile in DIY published by Bappeda DIY, the average monthly revenue of a single MSME in DIY in 2019 was IDR 51.8 million per year, equivalent to approximately IDR 4.3 million per month. MSMEs rely on their revenue to maintain smooth business operations, avoiding disruptions or bankruptcy. Given the regular expenses for operational costs, assets, labor costs, and other routine expenses, MSMEs must carefully prioritize how to allocate their revenue. With an average monthly revenue of IDR 4.3 million, an MSME employing 1–2 workers at the DIY minimum wage of IDR 1,570,923 per worker per month would

spend IDR 1.5–3 million on wages alone. This leaves MSMEs with approximately IDR 1.3–2.8 million per month to run their business.

3.5. Government Policy on Minimum Wage in DIY

Comparing the minimum wage policies of DIY, East Java, and West Java, DIY has the lowest UMR and UMK, while the UMRs in East Java and West Java are only slightly higher than that of DIY. However, both provinces have several regencies/cities with UMKs exceeding IDR 3 million. This can be attributed to the presence of industrial zones in certain regions of East and West Java, such as Sidoarjo and Karawang Regencies, where industrial revenues exceed those of MSMEs. Fischer's statement supports this, noting that public policy—such as minimum wage policies—needs to consider environmental, social, and economic factors [8]. The economic potential of a region through industries with revenues surpassing MSMEs is a significant consideration for determining minimum wage policies. In the case of DIY, the region has a relatively small number of industries generating revenues higher than MSMEs. This is primarily due to the limited availability of land to attract investors and establish industrial zones in DIY [17]. This limitation is compounded by the fact that DIY's total area is less than 10% of East Java and West Java. The absence of industrial zones in DIY's regencies and cities prevents the government from setting higher UMR or UMK levels.

If the government were to increase the UMR to IDR 2 million per month or set UMKs above IDR 2 million in certain areas, MSMEs would face significant financial burdens. With MSMEs already paying IDR 1.5–3 million per month in wages from an average monthly revenue of IDR 4.3 million, any increase in the UMR or UMK would further strain their operational budgets, potentially leading to bankruptcy. Additionally, there is a risk that MSMEs may relocate from certain regencies/cities in DIY to other areas or even outside the province if UMK levels exceed IDR 2 million per month. Such relocations would impact local government tax revenues, as MSMEs contribute to taxes on specific goods and services related to their operations. Thus, the DIY government's decision-making regarding the minimum wage policy in DIY is influenced by the presence of MSMEs and industrial zones in the region.

4. Conclusions

The determination of the minimum wage in DIY in 2019 was also influenced by the presence of MSMEs and the availability of industrial zones in the region. If the DIY government were to raise the minimum wage (UMR) to at least IDR 2 million per month, it would significantly impact MSMEs. With over 240,000 MSMEs generating an average monthly revenue of around IDR 4.3 million, there would be a potential risk of bankruptcy for many MSMEs in DIY. Furthermore, an increase in the minimum wage (UMK) in certain districts/cities within DIY could lead to the relocation of MSMEs to other districts/cities within DIY or even outside DIY, where the minimum wage is lower.

The availability of industrial zones also influences minimum wage policies. With industrial zones in place, the DIY government could raise the UMK in districts/cities with such zones without worrying about losing revenue from taxes on goods and services. In this context, MSMEs could contribute to increasing the minimum wage in DIY by merging with one another. This would enable MSMEs in DIY to level up to the industrial scale, adopting business models that do not require large industrial areas but generate high revenues, thereby covering employee salary expenses.

Conflict of interest

The authors declare no conflict of interest.

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