

## Legal Reformulation of Ultra-Micro Financing as an Instrument for Strengthening the People's Economy in Indonesia

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### ABSTRACT

*Ultra Microfinance (UMi) is one of the inclusive strategies to encourage people's economic growth, especially for small businesses that have not been reached by the formal financial system. However, the implementation of this program still faces obstacles due to the lack of comprehensive and responsive legal regulations. This research aims to analyze the gap between legal norms and the practice of ultra-micro financing implementation in the field and offer an adaptive and equitable legal reformulation model. Using a juridical-normative and empirical approach, data was collected through a literature study, interviews with micro business actors, and focus group discussions (FGDs) with lending institutions and stakeholders. The results show that the lack of legal protection, regulatory incoherence, and low legal literacy of the community hinder the effectiveness of the UMi program. Therefore, regulatory reformulation is needed in the form of a master legal framework that includes clear legal substance, strong institutional structure, and participatory legal culture. This research offers a conceptual model of legal reformulation of ultra-micro financing based on the principles of distributive justice, financial inclusion, and legal responsiveness. The results are expected to provide conceptual and practical contributions in the development of financing law policies that favor the community and support inclusive and sustainable national economic development.*

**Keywords:** Distributive Justice, Financial Inclusion, Legal Responsiveness, Legal Reformulation, Popular Economy, Ultra Microfinance.

### Introduction

In recent years, there has been increasing attention to the development of people's economy through inclusive financing schemes (Andrews et al., 2021; Cheumar & Yunita, 2022; Krysovaty et al., 2024; Susilowati & Leonnard, 2019). One form of this is Ultra Micro (UMi) financing, which is specifically aimed at micro and ultra-micro businesses that are not yet covered by formal banking institutions (Adam et al., 2021; Febriyani et al., 2023; Nurcahya & Soeryanto, 2024; Rohmana & Wulandari, 2025). According to data from the Ministry of Cooperatives and SMEs in 2023, there are more than 29 million micro and ultra-micro entrepreneurs in Indonesia who do not have access to formal financing, and only around 20% of them have obtained financing services from formal financial institutions. This indicates a significant gap between the need for funding and the availability of access to finance.

This phenomenon not only reflects structural problems in the national financial system, but also exposes fundamental challenges in the regulatory design of UMi financing, which is currently not fully integrated. Most regulations are scattered in the form of presidential regulations, ministerial regulations, and other sectoral policies that are often out of sync. As a result, implementing agencies such as cooperatives, BPRs, or microfinance institutions experience confusion in implementation, and micro-entrepreneurs become victims of legal uncertainty that makes it difficult for them to grow and develop sustainably (Dachi & Kasztelnik, 2024).

The urgency of this research lies in the need to encourage the establishment of a more responsive, targeted, and equitable legal system in the management of UMi financing. In the midst of post-pandemic national economic recovery efforts, the ultra-micro financing scheme

should serve as the backbone of strengthening the informal sector and empowering the people's economy. However, without a solid legal umbrella that favors small business groups, this effort will end up as an unsustainable short-term program.

A number of previous studies have discussed the effectiveness of UMi from an economic and social perspective (Affandi et al., 2024; Dachi & Kasztelnik, 2024; Rohmana & Wulandari, 2025), but not many have specifically examined the aspects of legal reformulation needed so that this financing regulation truly reflects the values of social justice, community participation, and the principles of financial inclusion. This is where this research gap lies: There is no comprehensive and contextualized legal framework for the characteristics of ultra-micro financing, both in terms of substance and implementation in the field.

Therefore, this research aims to examine the strategic role of ultra-micro financing in supporting the people's economy and critically analyze the need for reformulation of the laws governing it. The main contribution of this research is to offer a legal conceptual model that is more adaptive, participatory, and supports real community empowerment. This research is expected to be a reference for policy makers and academics in developing inclusive financing regulations that are able to answer the challenges of structural inequality in the microeconomic sector

This research aims to provide an in-depth understanding of the urgency and strategy of strengthening ultra-micro financing (UMi) as a key instrument in sustaining the people's economy in Indonesia. Specifically, the focus of this research is directed at analyzing the mismatch between the needs of micro-entrepreneurs and the current legal structure governing ultra-micro financing schemes.

The main objective of this research is to identify normative and structural weaknesses in the UMi financing regulation that hinder its effectiveness on the ground. In this context, this research seeks to explore how legal policy reformulation can improve the inclusiveness, partiality, and sustainability of financing for the lowest strata of society.

In addition, this research also aims to develop a legal framework that is more integrated and adaptive to the socio-economic conditions of ultra-micro businesses. Thus, the results of this research are expected to provide conceptual and practical contributions in the process of forming legal policies that support an inclusive financial system based on social justice and people's economy.

## Methods Research

This research uses a normative juridical approach combined with an empirical-sociological approach (Christiani, 2016; Noor, 2023). The normative juridical approach is used to examine positive legal norms governing ultra-micro financing (UMi), including relevant laws and regulations such as Presidential Regulation No. 82/2016 on the National Strategy for Inclusive Finance, Minister of Finance Regulations, as well as technical regulations issued by microfinance institutions, LPDB, and OJK.

Meanwhile, an empirical approach is taken to capture the reality of UMi financing implementation in the field. This approach focuses on the legal behavior that emerges in the community, especially among ultra-micro business actors as beneficiaries, as well as institutions that channel funds. This method allows researchers to obtain a factual picture of the obstacles and challenges faced by the parties in accessing and managing UMi financing.

Primary data was collected through semi-structured interviews with micro business actors in two study areas, Bogor District (West Java) and Central Lombok District (West Nusa Tenggara), which were purposively selected based on the availability of active UMi programs and the diversity of implementation models. Focus group discussions (FGDs) were also conducted involving representatives from cooperatives, microfinance institutions, village

officials, and policy-making officials at the local level. Secondary data was obtained through document studies of national and local regulations, reports of financing institutions, and relevant academic literature. Data collection techniques were conducted systematically through literature study, comparative law review, and field documentation.

Data analysis was conducted in a descriptive qualitative manner using content analysis techniques on legal documents and coding on data from interviews and FGDs. To maintain validity and reliability, this research used triangulation of sources and methods, as well as cross-verification of data collected from various sources and study areas.

This method was chosen because it is considered the most appropriate to answer the formulation of problems related to legal effectiveness and the urgency of policy reformulation in the context of ultra-micro financing. The results of the analysis of this method are then used as the basis for formulating legal policy recommendations that are more responsive and contextual.

## Results and Discussion

The findings in this study show that the implementation of Ultra Micro (UMi) financing at the grassroots level still faces significant obstacles. Interviews with micro businesses in Bogor and Central Lombok districts revealed that most respondents did not have sufficient information on the access and application procedures for UMi financing. Many micro businesses think that the program is only for businesses that already have a business license or are members of a formal cooperative, whereas normatively the program is intended for informal business groups and underprivileged productive individuals.

More specifically, respondents in Central Lombok said that the verification process and administrative requirements set by UMi channeling institutions-such as cooperatives or microfinance institutions-were too bureaucratic and not adapted to the characteristics of ultra-micro businesses that are flexible and community-based. Meanwhile, in Bogor District, the problems that emerged were related to the limited number of active channeling institutions and the absence of a transparent information system regarding quotas, criteria, and flow of funds distribution.

FGDs with local stakeholders showed that there is no integrated supervision mechanism from the central government and OJK on the implementation of the UMi program. Implementing institutions experience a lot of confusion in understanding the legal basis and their legal responsibilities, especially in terms of fund accountability, reporting, and dispute resolution mechanisms with debtors. On the other hand, the community as beneficiaries still does not have clear legal protection when fraud or illegal levies occur in the field.

The findings above confirm that ultra-micro financing has not fully functioned as a means of people's economic empowerment. Conceptually, this financing should be in line with the principle of distributive justice proposed by John Rawls, where justice demands that social and economic systems give the greatest benefits to the least advantaged groups in society. However, in practice, unequal access and weak legal protection have widened the gap.

From a legal perspective, the UMi financing regulations, which are scattered in various sectoral regulations, show a more legalistic-formal approach than responsive. In fact, according to the responsive legal theory of Philippe Nonet and Philip Selznick, the law should be able to adapt to social needs and answer the aspirations of the people who are the subject of these rules (Del Mar, 2008; Nonet & Selznick, 2017a, 2017b; Sukmana, 2023). However, until now there has not been a single legal framework that thoroughly regulates the substance, structure, and legal culture aspects of the ultra-micro financing system (Wahyuni et al., 2024).

In terms of regulation, the current legal approach emphasizes aspects of fiscal prudence and macro-financial stability, while inclusiveness and social alignment have not been the main emphasis (Dihaa et al., 2024). In fact, the success of UMi is not only determined by the ability of channeling institutions to channel funds quickly, but also by the ability of the legal system to protect and empower beneficiary communities.

Based on the empirical findings in the field and the previous theoretical discussion, it appears that ultra-micro financing in Indonesia has not been fully implemented within a strong, structured legal framework that is responsive to the socio-economic realities of the lower-class community. Therefore, it is necessary to formulate a conceptual model that can serve as a basis for reformulating the legal rules of ultra-micro financing in a more integrative and contextual direction.

This conceptual model departs from the principle that the legal system governing ultra-micro financing must not only focus on legal-formal aspects and fiscal stability, but must also favor social goals - namely distributive justice and people's economic empowerment. Within this framework, there are three important aspects that must be considered in legal reformulation: legal substance, institutional structure, and legal culture of the community.

First, in terms of legal substance, a special regulation is needed that thoroughly regulates ultra-micro financing. Currently, UMi-related regulations are still scattered in various technical regulations such as Presidential Regulations, Minister of Finance Regulations, and OJK Circular Letters, which causes fragmentation of norms and uncertainty in implementation in the field. The regulation in question should come in the form of a main legal product, such as a law or government regulation that contains the basic principles of inclusive finance, criteria for beneficiaries, responsibilities of channeling institutions, reporting systems, as well as supervision and dispute resolution mechanisms. With a master regulation, the governance of ultra-micro financing will have a clear direction and standards, as well as a strong legal basis for all stakeholders.

Second, in terms of institutional structure, it is important to establish an institution specifically responsible for managing and supervising ultra-micro financing at the national and regional levels. So far, many channeling institutions do not have uniform technical guidelines in channeling UMi funds, resulting in imbalances in implementation and potential abuse of authority. This management institution should not only function as a technical regulator, but also as a facilitator of inter-agency coordination, a collector of beneficiary data, and a supervisor of fund distribution. This institution should be cross-sectoral - under the direct supervision of the central government - but have administrative autonomy so that it can move adaptively and contextually.

Third, from a legal culture perspective, the legal reformulation model for UMi financing must pay attention to the level of legal and financial literacy of the beneficiary community. So far, there are still many ultra-micro business actors who do not understand their rights and obligations, and do not know the existence of a complaint mechanism if they experience losses due to unfair distribution of funds. Therefore, the proposed legal reform must be accompanied by strengthening public education through socialization programs, community-based training, and inclusive information technology support. A good legal culture can only grow if the community is actively involved in the legal process, and is not positioned merely as an object of policy.

Overall, this conceptual model places law not only as a regulatory tool, but as a social engineering tool that bridges the needs of grassroots communities with the national economic system. Legal reformulation of ultra-micro financing based on social justice, community participation, and inclusiveness, is an important prerequisite for the success of sustainable and equitable populist economic development.

## Discussion

This research makes a significant contribution to the field of development law and community-based economic policy by offering a new perspective on ultra-micro financing (UMi) not merely as a technical economic policy, but as a fundamental and strategic legal issue. In this context, there are several aspects of scientific novelty that can be identified from the results of this study.

The first novelty lies in the analytical approach that combines a normative legal framework with empirical field findings, in order to uncover structural imbalances between existing legal norms and the practice of implementing ultra-micro financing. So far, studies on UMi have mostly been conducted from an economic and public policy perspective, while the legal aspect is often sidelined or seen as a mere administrative instrument. This research shows that the root cause of the low effectiveness of the UMi program stems from the weak legal design, both in terms of substance, institutional structure, and legal culture of the community.

The second novelty is the offering of a comprehensive conceptual model of legal reformulation of ultra-micro financing, by integrating the principles of distributive justice, legal responsiveness, and financial inclusion. This model not only proposes the establishment of a master regulation, but also pays attention to the need for institutional reform and community empowerment in building a participatory legal culture. Thus, this model is multidimensional and contextual, in accordance with the diverse socio-economic characteristics of Indonesian society.

In terms of practical contributions, this research provides concrete recommendations to policy makers, both at the central and regional levels, to review microfinance policies more thoroughly, and strengthen the legal dimension in the formulation of inclusive economic policies. These recommendations can serve as the basis for the formulation of new regulations that are more targeted, equitable and sustainable.

In addition, the theoretical contribution of this research is also important to enrich the literature on development law and inclusive finance, especially in filling the void of studies that directly link legal design and the effectiveness of low-income financing programs. This research proves that law is not only a regulatory tool, but can also function as a motor of social change if designed and implemented by prioritizing the principles of justice and responsiveness to community needs.

Thus, this research is expected to serve as an academic and policy reference for academics, regulators, microfinance institutions, and civil society who are concerned with strengthening the people's economy through law-based financing system reform.

## Conclusion

Based on the results of the research and discussion that has been carried out, it can be concluded that ultra-micro financing (UMi) has a strategic role in supporting the people's economy, especially in an effort to encourage the empowerment of micro-business actors and underprivileged community groups that have not been touched by formal financial services. However, the effectiveness of UMi financing is still not optimal due to the weak support of a comprehensive, structured, and adaptive legal framework for the socio-economic conditions of the communities targeted by the program.

This research shows that there is a real gap between the prevailing legal norms and the implementation practices in the field. The incoherence of regulations, the weak institutional management structure, and the lack of legal and financial literacy at the community level have caused UMi financing to not run in accordance with the spirit of distributive justice and financial inclusion. This is exacerbated by the absence of a master

regulation that explicitly regulates ultra-micro financing as a legal instrument to strengthen the people's economy.

Through normative and empirical approaches, this research offers a conceptual model of legal reformulation of ultra-micro financing based on three main pillars: the preparation of a comprehensive master regulation that favors small communities; the establishment of a strong and integrated institutional structure; and strengthening legal culture through literacy and public education. This model is expected to be able to bridge the needs of the community with the national legal system, and become a solution to the stagnation of UMi financing that has occurred so far.

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