

# How to create Legal Protection for Debt Collateral in MSMEs in Indonesia

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## Article Info

### Article history:

Received Dec, 2023

Revised Dec, 2023

Accepted Dec, 2023

### Keywords:

Collateral, Deb, Indonesia,  
Legal Protection, MSMEs

## ABSTRACT

This study examines the legal protection available to debt collateral for Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia that are seeking financing from traditional banks. The study used a mixed methods approach, combining quantitative survey data, regression analysis, and qualitative insights to offer a thorough grasp of the issues and possible solutions. The results show a strong relationship between awareness and the belief in the efficacy of legal protection. Important obstacles included lengthy approval procedures, bureaucratic obstacles, and difficulties with collateralized financing. Policy recommendations for regulatory reform, industry cooperation, and awareness-raising are among the implications. Notwithstanding the cross-sectional design and sample representativeness constraints, this study adds to the development of effective legal protection tactics for MSMEs in Indonesia.

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## 1. INTRODUCTION

Through fostering innovation, lowering poverty, and generating jobs, Indonesia's Micro, Small, and Medium-Sized Enterprises (MSMEs) sector contributes significantly to economic development [1], [2]. MSMEs are acknowledged as significant GDP contributors to the nation and as having the capacity to weather economic downturns [3]. These businesses require assistance with a number of things, including strategy, management, creativity, and business procedures [4]. By providing MSMEs with access to capital, technical help, and business development support, they can grow their operations, boost output, and add new

employees [5]. Favorable tax laws can also have a good impact on MSMEs' business expansion and investment decisions, which boosts the nation's economy as a whole. As a result, supporting MSMEs' expansion and development is essential to Indonesia's economic development.

SMEs frequently encounter difficulties obtaining financial support from conventional banks, primarily because of collateral-related issues, despite their significant importance in the economy. SMEs can, however, overcome these challenges with the aid of a number of solutions. Relationship lending is one of them; it entails establishing intimate, protracted ties with banks. According to research by [6], access to bank

loans for SMEs is positively correlated with parent bank status, communication intimacy, and relationship length. Supply chain accounts-receivable pledge finance (SCARPF) is an additional tactic that SMEs can use to get loans by utilizing their connections to banks and core businesses. [7] created an evolutionary game model that illustrates the significance of variables in influencing the probability of banks giving money to SMEs, including co-lending fraud, lending interest rates, and rate of return. Furthermore, as shown by [8], SMEs' access to financing can be enhanced by strengthening the legal and regulatory framework, collateral options, credit information systems, and financial literacy. Overall, these results imply that strengthening ecosystem support, fostering stronger supply chain connections, and cultivating relationships can assist SMEs in overcoming collateral-related obstacles and facilitating better bank credit availability.

The legal system is crucial in safeguarding collateral and fostering an atmosphere that is advantageous to creditors and small and medium-sized enterprises. The expected rate of return on collateral is raised by strong legal protection for creditors, such as laws and organizations that do so [9]. Because it lowers creditor liquidation bias and permits bigger loan-to-value ratios, this increases SMEs' debt capacity [10]. However, SMEs may find it more difficult to access trade credit and capital markets as a result of the courts' ineffectiveness in upholding credit rights, which may force them to turn to tax arrears as a source of internal liquidity [11]. Thus, SMEs' access to credit and development can be enhanced by an efficient legal structure that guarantees the execution of credit rights [12].

The intricate link between MSMEs, traditional banks, and the legal safeguards provided to debt collateral in Indonesia is examined in this study. Credit availability is essential for MSMEs' expansion, growth, and sustainability since it spurs innovation and the creation of jobs. Collateralized loans give lenders a way to reduce risk while also giving MSMEs access to the money they need to run

their businesses [13]–[15]. Nonetheless, it's possible that Indonesia's present credit collateral laws aren't best suited to address the unique requirements and difficulties MSMEs have. In order to close this gap, this study thoroughly assesses the current level of legal protection and suggests ways to make it better.

It is imperative that this issue be addressed immediately. MSMEs, which are frequently hailed as the foundation of the economy, are on the verge of becoming dependent on loan availability for both survival and expansion. Thanks to holes in legal protection mechanisms, the collateralization process—which was intended to help secure loans—has turned into a barrier rather than an aid. The pressing need to increase MSME resilience, particularly in the post-pandemic economic recovery phase, highlights how timely this research is.

## 2. LITERATURE REVIEW

### 2.1 *Legal Framework for Debt Collateral Protection*

The literature now in publication has conducted a thorough analysis of the legal framework governing debt collateral in Indonesia, offering valuable insights into the advantages and disadvantages of pertinent statutes, rules, and enforcement procedures [16]. The impact of commercial law on the efficiency of collateralized lending for MSMEs has also been investigated in this research, offering a foundation for comprehending the regulatory environment and pinpointing areas in need of development [17]. Additionally, by benchmarking against nations that have effectively balanced the interests of lenders and MSMEs, international comparisons have been undertaken to highlight best practices in the legal framework for debt collateral protection [18]. These

comparisons offer insightful information that can be used to improve Indonesia's legal system and guarantee a just and efficient debt collateral system [19].

### *2.2 MSMEs Challenges in Accessing Credit*

Small, medium, and micro enterprises (MSMEs) have difficulty getting loans from traditional banks because of their short credit histories, asymmetric information, and lack of physical assets to use as collateral. These difficulties draw attention to the shortcomings in the MSMEs' current legal protection frameworks. Empirical research investigates the behavioral and psychological factors that affect MSMEs' ability to obtain financing, offering an alternative viewpoint on the larger conversation [20], [21] [2]. In order to address the obstacles MSMEs encounter when attempting to obtain credit and to create methods that will enhance their creditworthiness and financial inclusion, it is imperative that these issues be comprehended [22], [23]. By tackling the issues at their core, these insights not only deepen our comprehension of the problems but also present viable remedies.

### *2.3 International Best Practices and Lessons Learned*

To benchmark and modify successful models, an examination of global best practices in collateralized lending to SMEs is necessary. Studies have indicated that collateral is a significant factor in resolving issues related to bankruptcy, underinvestment, incentive contracts, adverse selection, and diluting the value of bank monitoring services [24]. Furthermore, the Joint Credit Guarantee Corporation's collateral can communicate

to the bank the firm's entrepreneurial approach, assisting SMEs in reducing their financial risk [25]. It has also been discovered that banks' decisions to offer secured loans are influenced by higher capital requirements, with lower capital requirements making secured loans more appealing to banks [26]. Collateral determinants for small and medium-sized enterprises (SMEs) also encompass the requirement for high-risk borrowers to provide collateral, the mitigation of asymmetric information, and the loan's duration and gender [27]. These case studies offer insightful information about the policies and procedures that have made it easier for SMEs to obtain loans while maintaining lender security. These studies shed light on the complexities of legal conception and application, offering Indonesia important takeaways.

### *2.4 Impact of Legal Protection on MSMEs and Lenders*

Numerous researches have looked at how legal safeguards affect SMEs and lenders, with an emphasis on loan approval and default rates. These studies examine the relationship between these outcomes and legal protections using statistical models. [28] discovered that greater debt protection results in higher debt capacity and maturity, as well as higher debt issuance and lower equity issuance. [29] demonstrate that companies create more concentrated debt structures in nations where creditor protection is more robust, as this raises the likelihood that distressed debt can be successfully renegotiated.

[30]found a negative correlation between non-performing loans and the cost of enforcing contracts, suggesting that better legal protection can lower

NPLs. [31] demonstrates the correlation between improved income growth prospects and reduced delinquency rates in multifamily housing and increased levels of tenant safety. Finally, the study in [32] shows that the likelihood and size of lines of credit received by enterprises are larger in economies with strong investor protection, indicating the significance of legal protection in managing firms' liquidity. These kinds of quantitative insights are essential for evaluating the efficacy of the current legal system and putting forth data-driven reform ideas.

### *2.5 Summary and Identified Gaps*

In conclusion, the literature analysis emphasizes how crucial collateral protection laws are to helping MSMEs in Indonesia obtain finance. Even while the current works offer a foundational understanding, there are still significant gaps. More thorough empirical research measuring the effect of legal protections on credit access is required, with a particular focus on the Indonesian setting.

## **3. METHODS**

### **Research Design**

Using a combination of qualitative and quantitative approaches, this research design uses mixed methodologies to ensure a thorough grasp of the complexity surrounding loan collateral legal protection mechanisms in the context of MSMEs in Indonesia.

An extensive analysis of pertinent legal, regulatory, and literature frameworks on debt collateral protection for MSMEs in Indonesia is part of the qualitative component. The conceptual framework was developed with input from the literature review, which also identified important variables and elements that affect credit accessibility and legal protection.

The quantitative component employed a structured survey to gather primary data from important parties, such as owners of MSME's, representatives of traditional banks, and attorneys with expertise in commercial law. Finding patterns, connections, and statistical significance between legal protections and MSMEs' credit accessibility is the goal of the quantitative data combined with statistical analysis.

### **Sampling Strategy**

The sample plan was created with diversity and representativeness across Indonesia's many areas and industries in mind. Participants were divided into strata according to their company sector and geographic area using stratified random sampling. This approach guarantees equitable representation by considering the varying economic circumstances and regulatory frameworks across various industries and areas.

**MSME owners:** A representative sample of 110 MSME owners from a variety of industries, including manufacturing, services, and retail, consented to assist in achieving the goals of this research. To capture a wide range of experience, the sample comprised companies of different sizes.

**Conventional Banks:** A total of 30 samples from 10 Conventional Banks were included in the study to gain insight into the perspectives of representatives from different conventional banks operating in Indonesia regarding the difficulties and dangers involved in lending to MSMEs.

**Legal Experts:** To gain insight into the legal nuances of debt collateral protection, experts in the fields of commercial law, banking laws, and MSME financing were approached. A total of 20 legal academics consented to participate in this study by providing cooperative answers.

### **Data Collection**

A structured survey designed for each participant group was used to gather primary data. The survey was administered via both in-person interviews and an online

platform, giving participants freedom. To guarantee clarity, relevance, and dependability, the survey instrument underwent pre-testing.

**MSME Owner Survey:** Gathered data on MSMEs' perceptions of current legal safeguards, difficulties they have obtaining credit, and recommendations for enhancements.

**Conventional Bank Survey:** This study focuses on the lending practices of conventional banks, the difficulties encountered while offering MSMEs collateralized loans, and suggestions for bettering the law.

Legal experts' opinions on the suitability of the current legal system, possible legal changes, and their effects on MSMEs and lenders are examined in the Survey of Legal Experts.

#### **Data Analysis**

To evaluate regression and descriptive statistics, quantitative data was examined using SPSS statistical tools. By identifying trends and evaluating statistical significance, these analyses sought to shed light on the connection between MSMEs' access to financing and legal protections.

#### **Ethical Considerations**

Ensuring participant confidentiality, gaining informed agreement, and abiding by ethical standards for research involving human subjects were among the ethical considerations. To preserve participant anonymity, all data was anonymised, and the study complied with accepted ethical guidelines for scholarly research.

## **4. RESULTS AND DISCUSSION**

### **Qualitative Results**

Different viewpoints of the current legal framework governing loan guarantee for MSMEs in Indonesia were exposed through in-depth interviews with legal experts, including myself. Legal experts generally agreed that although the infrastructure of the law is in place, its efficacy is limited by uneven enforcement and deficiencies in

addressing the particular requirements of MSMEs. Qualitative data highlights how crucial it is to have standardized processes, clearer laws, and a more responsive judicial system.

#### **Interview Excerpt (Myself as a Legal Expert)**

*"As a specialist in commercial law, I have seen a mismatch between the dynamic requirements of MSMEs and the current legal framework. Although the regulatory framework is extensive, its actual application frequently lacks substance. More efficient procedures and aggressive legislative safeguards are required to address the particular difficulties MSMEs confront and guarantee that lenders and borrowers are suitably safeguarded".*

Qualitative information gathered from MSME owners' interviews exposed a range of obstacles preventing them from obtaining finance. The stories continuously emphasized people's ignorance of legal safeguards, their confusion with bureaucratic procedures, and their impressions of conventional banks' biased lending practices.

#### **Interview Quote (MSME Owner)**

*"Applying for a loan is similar to navigating a bureaucratic maze. Having collateral is not enough; you also need to know how to use legal safeguards to your advantage. As small business owners, a lot of us are ignorant of our legal rights and resources. The system must be more clear and easily accessible."*

The qualitative study draws attention to the human aspect of the problems and emphasizes the significance of both legislative changes and educational programs to provide MSMEs with information.

Legal specialists and MSME owners' interviews yielded insightful information about possible fixes and advancements. The need for more information to be shared about legal protection and for legal procedures to be made simpler was highlighted by MSME owners. Proactive legal reforms, such as improved enforcement mechanisms and the use of digital technologies to simplify

procedures, are important, according to legal experts.

#### **Interview Quote (Legal Expert)**

*"The needs of a business environment that is changing quickly must be met by the legal system. This entails utilizing digital documentation solutions and fostering an atmosphere that gives MSMEs the assurance to take advantage of legal protections. Reforms ought to foresee future difficulties in addition to filling in current deficiencies".*

#### **Quantitative Results**

##### **Survey of MSME Owners**

The evaluation of MSME owners' awareness of the legal protection for debt collateral offers crucial information about the present level of understanding in this field. Total Percentage: Only 45% of MSME owners who responded to the poll said they were aware of the current legal safeguards for debt collateral.

ramifications This research highlights a significant knowledge gap that calls for focused interventions, like awareness campaigns and educational programs, to provide MSMEs a greater grasp of the legal safeguards that are accessible to them.

Total Percentage of the MSME owners polled, 55% showed a thorough awareness of the legal safeguards that apply to debt collateral. Even though the majority showed a high level of awareness, efforts should continue be focused on enhancing and growing this body of knowledge. These results emphasize how crucial it is to maintain channels of communication and education to make sure MSMEs are aware of their legal rights and protections.

Additional Analysis Regional differences in awareness levels could be investigated further, revealing places that might benefit most from focused initiatives. Strategies for individualized instruction could be influenced by this local viewpoint. Analyzing awareness levels in particular industries could yield different conclusions. Education programs can be made more

effective by adjusting awareness campaigns to the specific requirements of various sectors.

#### **Perceived Challenges**

In order to enhance MSME owners' access to credit, it is imperative to comprehend the obstacles they face and pinpoint the crucial areas that need attention and assistance. Percentages: Bureaucratic obstacles were cited by 72% of MSME owners polled as a major obstacle to the financing application process. Improving MSMEs' access to financing requires streamlining bureaucratic procedures. Important obstacles to credit availability can be removed by streamlining credit application processes and cutting down on administrative red tape.

Percentage: A significant barrier to getting finance, according to 58% of MSME owners polled, is drawn-out approval procedures. Accelerating the approval procedure can help conventional banks solve a major problem brought up by MSMEs. A financial environment that is more responsive and encouraging is enhanced by timely approvals.

Investigating regional differences in perceived difficulties can shed light on regional problems. Adapting methods to tackle issues unique to a certain area might boost the efficacy of initiatives. Extra Thoughts: Analyzing difficulties in particular sectors can yield distinct perspectives. Adapting support systems to overcome obstacles unique to a certain industry might help make an approach more focused and effective. MSMEs, regulatory agencies, and financial institutions can work together to develop solutions that streamline procedures, deal with bureaucratic obstacles, and create an atmosphere that makes financing accessible.

Perceived challenges draw attention to areas where focused adjustments can have a big influence on MSME loan availability. Through the reduction of bureaucratic obstacles and streamlining of approval procedures, interested parties can help establish a more effective and encouraging

financial environment for MSMEs in Indonesia.

### **Suggestions for Improvement**

To create interventions that address MSME owners' needs and concerns, it is essential to comprehend the suggestions and proposals for change they have supplied. Percentages: According to a poll, 68% of MSME owners suggested making loan applications' legal processes simpler. There is a chance for legal reform as respondents underlined the need for more straightforward legal procedures. MSMEs' capacity to handle credit applications more skillfully might be enhanced by streamlining and clarifying legal processes.

74% of respondents recommended expanding the information available about legal rights. Implication: It's critical to have a strong information-dissemination plan. The recognized need to increase MSME owners' awareness of their legal safeguards can be addressed by targeted workshops, internet platforms, and educational activities. Additional analysis: Examining differences among regions with regard to recommended enhancements can reveal needs specific to a given area. Strategies for disseminating information can be made more relevant and efficient by tailoring them to the needs of particular geographic areas.

Extra Thoughts: Analyzing ideas tailored to a particular industry might provide tailored answers. The impact of interventions can be increased by tailoring awareness campaigns and support systems to the demands of the industry. Advice: Working together, the public and commercial sectors can make it easier to put recommended reforms into practice. Public-private collaborations have the potential to enhance the efficacy and reach of awareness campaigns while streamlining legal procedures. Emerging themes: Numerous interviewees emphasized the possible contribution of technology. To improve accessibility and efficiency, it may be possible to investigate the integration of digital

solutions into information distribution and application processes.

The MSME owners' recommendations for enhancements highlight their preferences and top priorities for enhancing the environment surrounding credit accessibility. Stakeholders can help create a more encouraging financial environment for MSMEs in Indonesia by streamlining legal processes, enhancing information sharing, and customizing interventions depending on industry and regional needs.

### **Conventional Bank Survey**

#### **Lending Practices**

To evaluate traditional banks' impact on MSMEs' access to credit, it is essential to comprehend their lending policies and viewpoints. 60% of conventional banks who responded to the poll admitted to using conservative lending practices. Acknowledging conservative lending practices suggests a cautious approach, possibly motivated by risk apprehensions. It's critical to figure out how to control risk while yet making financing more accessible to MSMEs.

As a percentage, 67% of conventional banks asked said they were particularly worried about the legal risks involved in lending to small and medium-sized businesses. A thorough grasp of the legal system is necessary to address worries about legal hazards. Working together, banks and legal professionals can create solutions that reduce risks while assisting MSMEs.

#### **Challenges in Collateralized Lending**

It is possible to identify potential obstacles to lending to MSMEs by having an understanding of the difficulties traditional banks encounter when making collateralized loans. Percentage: One of the main obstacles to collateralized lending, according to 52% of traditional banks polled, is insufficient legal protection. The worries expressed by banks can be allayed by bolstering legal protections. To create and carry out reforms, financial

institutions, legislators, and legal experts must work together.

The poll results indicate that 45% of conventional banks were concerned about the legal complexity involved in the collateralized lending procedure. Implications: Complexity-related worries can be allayed by streamlining legal processes and enhancing clarity. Collaborative efforts between banks and legal specialists can help to establish a procedure that is more transparent and effective.

### **Recommendations**

Gaining an understanding of the suggestions made by traditional banks might help identify ways to enhance MSMEs' access to collateralized loans. As a percentage, 61% of conventional banks polled supported more precise legislative requirements. For banks, a more predictable framework may be provided by more explicit legal rules. Guidelines that strike a balance between legal rigor and practical application can be developed through collaborative efforts between legal experts and financial organizations. As a percentage, 58% of conventional banks questioned were in favor of using uniform practices. A loan process that is more effective and consistent may benefit from standardized processes. To guarantee compliance with the law, regulatory agencies and financial institutions must cooperate together to develop and implement standardized procedures.

The Conventional Bank Survey's findings emphasize the need to strike a careful balance between risk management, legal issues, and the requirement to make it easier for MSMEs to obtain credit. Developing a more hospitable lending environment for MSMEs in Indonesia requires addressing worries about legal risks and complexities, strengthening legal protections, and putting in place standardized procedures.

### **Legal Expert Survey**

#### **Legal Framework Assessment**

Gaining insight into the opinions of legal experts regarding the current legal framework is crucial in determining how

well-functioning the current legal infrastructure is for small and medium-sized enterprises. As a percentage, 76% of legal professionals questioned about the efficacy of the current legal system. Consequences: The large percentage of legal professionals who voiced concerns draws attention to possible flaws in the current legal system. This necessitates a thorough analysis of the legal system to pinpoint areas in need of revision and development.

Percentages: 82% of legal professionals polled agreed that reforming the legal system was necessary. Legal experts appear to agree that the current legal framework has to be improved, as seen by the widespread support for legal reform. This group's backing highlights how critical it is to keep advancing the law.

### **Proposed Reforms**

Gaining an understanding of the particular reforms put forth by legal professionals can help identify areas that need attention in order to improve MSMEs' legal protection. 70% of legal experts polled said that enforcement procedures should be strengthened. To guarantee that law protections are actually effective in practice, enforcement measures must be strengthened. Legal experts' recommendations offer direction on possible areas where enforcement procedures could be improved.

The percentage of legal specialists who supported simplifying legal procedures was 64%. There is general agreement that legal processes need to be made clearer and simpler. This is indicated by calls for simplifying legal procedures. Resolving procedural issues can help make the legal system more user-friendly and accessible for MSMEs.

### **Collaborative Approach**

Comprehending the possibility of cooperation between legal specialists and additional interested parties might offer valuable perspectives for formulating a comprehensive strategy for legal modification. Legal professionals and other



interested parties should work together to suggest improvements that entail cooperation between the public and private sectors. Through this partnership, a comprehensive approach to legislative change that considers the requirements of financial institutions and MSMEs can be ensured.

**Extra Things to Think About:** It is crucial for stakeholders and legal professionals to have ongoing conversations in order to recognize changing issues and put appropriate solutions into place. A dynamic and adaptable legal environment can be facilitated by regular communication channels.

The Legal Experts Survey provides valuable insights that highlight the significance of ongoing evaluation and enhancement of the legal framework. A path for improving legal safeguards, enforcing procedures, and streamlining processes to establish a more hospitable legal environment for MSMEs in Indonesia is provided by the issues raised by legal experts and the improvements they have suggested.

### **Integrations**

The qualitative findings provide the quantitative data context and richness. For instance, the quantitative result that a sizable portion of MSME owners reported having little knowledge of the legal safeguards that are now in place is consistent with the qualitative emphasis on ignorance. The statistical analysis, which anchored the quantitative findings in the actual experiences of MSMEs and legal experts, was informed by the problems that emerged from the qualitative interviews.

The qualitative findings highlight the complexity of the issues MSMEs confront and provide a detailed account that improves knowledge of Indonesia's legal protection system as a whole.

Multiple regression analysis was done in addition to qualitative and quantitative analysis to investigate the relationship between several characteristics and the efficacy of debt collateral's legal protection in MSMEs seeking financing from

Indonesian conventional banks. This statistical method enables a deeper comprehension of the variables influencing the results noted in this investigation.

**Awareness Level:** The perceived efficacy of legal protection rises by 0.561 units for every unit increase in awareness level (mean = 75), and this connection is statistically significant (sig = 0.002). This suggests that there is a substantial positive correlation between increased awareness and improved perceptions of the efficacy of legal protection.

**Perceived Bureaucratic Barriers:** Perceived legal protection efficacy fell by 1.257 units for every unit increase in perceived bureaucratic barriers (mean = 3.5), and this connection was statistically significant (sig < 0.001). This suggests a negative correlation between perceived efficacy of legal protection and increased perceived bureaucratic barriers.

**Duration of Approval Procedure:** Perceived legal protection effectiveness fell by 0.081 units for every one-day increase in the approval procedure' duration (mean = 30), and this connection was statistically significant (sig = 0.045). A less positive opinion of the efficacy of legal protection is linked to a lengthier approval process.

**Difficulties with secured lending:** The perceived efficacy of legal protection declines by 0.952 units for every unit rise in the difficulties faced by traditional banks in collateralized lending (mean = 2.8), and this association is statistically significant (sig = 0.003). The perceived efficacy of legal protection is inversely correlated with higher challenges in collateralized lending.

### **Discussion**

#### **Integration of Qualitative and Quantitative Insights**

The issues in Indonesia's legislative protection framework for MSMEs are highlighted by the integration of qualitative and quantitative research. Quantitative data is enhanced with qualitative narratives, which offer a more nuanced perspective of the human experience underlying statistical trends. This integration makes it easier to

comprehend the dynamics influencing how effective legal protection is on a more thorough level.

#### **The Role of Awareness**

The importance of awareness is highlighted by the fact that it appears frequently in both the quantitative findings and the qualitative tales. In addition to meeting needs that MSME owners have identified, awareness-raising initiatives are in line with the regression analysis, which shows a favorable relationship between awareness levels and opinions about the efficacy of legal protection. Previous research has demonstrated that collaborating with government agencies, financial institutions, and industry groups can enhance the effectiveness of awareness-raising programs [33], [34].

#### **Procedural Simplification and Collaboration**

Survey data and qualitative observations repeatedly highlighted the difficulties caused by protracted approval procedures and bureaucratic roadblocks. Regression analysis revealed a negative association, which highlights how crucial it is to streamline processes in order to raise the perceived efficacy of legal protection. Collaboration amongst legal professionals, legislators, and traditional banks also emerged as a key tactic. Previous research has emphasized the potential benefits of aligning the legal framework with the operational reality of financial institutions, such as increased efficiency and support for lending [35], [36].

#### **Implications and Recommendations**

The combined findings highlight the necessity of focused interventions. Suggested actions comprise:

- a. **Public Awareness Campaign:** Measures taken to educate MSMEs about their legal rights.
- b. **Legal Reform:** Joint initiatives aimed at bringing about legal reform, such as enhanced

enforcement capabilities and streamlined processes.

- c. **Standardized Practices:** To lower administrative barriers, standardized loan procedures for collateralized loans should be used.

These suggestions are supported by the quantitative preferences shown in the survey replies as well as the firsthand experiences of MSMEs.

#### **Limitations and Future Research**

It is critical to accept one's limitations. The dynamic nature of the legal environment may necessitate additional research, as this study is not thorough. Subsequent investigations may delve more deeply into the nuances of particular legislation, perform longitudinal analysis, and examine how digital solutions are changing the legal process.

### **5. CONCLUSION**

Finally, this study sheds light on the intricate dynamics pertaining to legal protection for MSMEs seeking loans in Indonesia. Regression analysis, along with quantitative survey data and qualitative narratives, offers a comprehensive insight of the obstacles faced by MSME owners and the variables affecting their opinions. The significance of education activities is highlighted by the positive link found between perceived effectiveness of legislative protections and awareness levels. The significance of regulatory reform and cooperative efforts to expedite processes and address issues faced by financial institutions is emphasized in policy suggestions. This study offers important insights to policymakers, financial institutions, and legal professionals that aim to enhance the legal protection framework and foster sustainable economic growth in the MSME sector, notwithstanding several limits that call for cautious interpretation.

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