

Micro, Small, and Medium-Sized Enterprises (MSMEs): The Significant Role and Challenges in Indonesia's Economy

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Abstract:

Research Aims: The study aims to investigate how MSMEs—micro, small, and medium-sized enterprises—substantially impact Indonesia's economy.

Methodology/design and approach: The design, methodology, and approach of this research entail an investigation of the noteworthy impact that micro, small, and medium-sized enterprises (MSMEs) have on Indonesia's economy. The strategy uses data to back up the assertion that MSMEs are the engine of Indonesia's economy, employing more than 97% of the labour force and adding more than 61% to the nation's GDP. The categorisation of companies based on their size and assets is investigated, demonstrating the numerical dominance of micro businesses to shed light on the structure of MSMEs in Indonesia; it emphasises how MSMEs perform comparatively poorly in exports, underscoring the necessity of improving their integration into international supply networks. Most of Indonesia's economic environment comprises Micro, Small, and Medium-Sized Enterprises (MSMEs), making this sector a powerful force. This article explores how MSMEs significantly influence Indonesia and provides data to support this claim. MSMEs are the backbone of Indonesia's economic activity, employing over 97% of the country's workforce and providing more than 61 per cent of the country's GDP. Their share of the economy may appear little initially, even though they comprise 99 per cent of all businesses. Still, their reputation as crucial economic agents is cemented by their indispensable role in delivering basic commodities and services to urban and rural communities. The framework of MSMEs in Indonesia is further clarified by examining how businesses are classified according to their assets and size. Larger organisations have more resources and clout, while micro businesses predominate numerically. However, MSMEs need help beyond their financial relevance. It is imperative to address integration hurdles to promote innovation and productivity and to increase MSMEs' contribution to Indonesia's economic growth; policymakers can ensure that MSMEs continue contributing to Indonesia's financial resilience and prosperity by realising their critical role and tackling current obstacles. It will allow MSMEs to reach their full potential.

Introduction:

Micro, Small, and Medium-Sized Enterprises (MSMEs) are intriguing phenomena with significant influence and relevance in Indonesia's dynamic economy. This preface lays the groundwork for an in-depth investigation of MSMEs' critical role in propelling Indonesia's economic growth trajectory. The dynamism and resilience of Indonesia's MSME sector are key components of the country's economic vibrancy. The following striking figures demonstrate the extent of their contribution: Slightly more than

61 percent of Indonesia's GDP is made up of MSMEs. In addition, these businesses employ around 97% of the labour force in the country, making them the main source of new jobs. Ninety-nine per cent of all enterprises operating in Indonesia are classified as MSME, which is even more remarkable.

These statistics highlight how important MSMEs are to developing the country's economy (*Indonesia Investments*, 2022). Even with these striking figures, concerns are raised about the relative contribution of MSMEs to Indonesia's economic expansion. Even though they make up most firms, some could contend that their 61 per cent GDP contribution seems low. Nevertheless, it's important to understand that this number obscures the complexity of MSMEs' economic participation. These businesses support the production, distribution, and provision of basic goods and services to urban and rural populations, making them the backbone of Indonesia's economic activity. Without the widespread presence of MSMEs, Indonesia's economy would be drastically different, if not dysfunctional. Determining how MSMEs are classified according to size and assets is crucial to understanding the complex structure of MSMEs in Indonesia. In terms of numbers, microbusinesses outnumber larger companies, even if the former has more resources and clout.

The variety of the MSME sector highlights its intricate and diverse characteristics. However, even with their considerable economic power and numerical dominance, Indonesian MSMEs face significant obstacles, especially regarding international trade integration. MSMEs can only partially contribute to Indonesia's export performance due to their poor connections to global supply and value chains. According to recent data, Indonesian MSMEs fare much worse than their regional rivals, making up only 14% of the country's total exports. MSMEs, for example, make up 41% of exports in Singapore and a startling 60% of exports in China. It is clear from this disparity that Indonesian MSMEs must become more globally competitive.

These obstacles make it clear that coordinated efforts to remove integration barriers and promote efficiency and innovation are necessary to realize the full potential of Indonesian MSMEs. Policymakers can guarantee Indonesia's economy's sustained resilience and success by recognizing the vital role of MSMEs and removing current barriers. The article will examine the characteristics of MSMEs in Indonesia in more detail. It will explore their contributions, difficulties, and prospects for expansion and improvement in the constantly changing global economy.

Research Methodology

The primary research approach used for this article was a literature review. Conducting literature research involves methodically examining and assessing information obtained from various library resources, such as periodicals, scientific publications, historical narratives, documents, government websites and information, and other frequently published items. These sites are excellent sources of data for gathering information for scholarly articles. Instead of conducting scientific experiments, the research used a qualitative methodology, concentrating on monitoring symptoms or natural events.

This descriptive study uses visual aids and verbal descriptions to convey information rather than numerical representations for findings. Every piece of information gathered advances our grasp of the research issue. Within the report presentation, the study includes data samples that highlight the provision of responses to questions such as "why," "how," or "what reasons," providing an overview. Readers can easily understand its substance since textual descriptions only offer information.

Reference books served as one of the study's main sources of information, while secondary data sources enhanced the examination. Journals, books, records, and articles were other noteworthy materials. Data

was collected through documentation, which involved looking through or documenting easily readable information from magazines and periodicals.

This research methodology sought to distil the essence of modern concepts, using a survey of theories and a content analysis of their many characteristics.

Literature Review:

The core of Indonesia's economy comprises Micro, Small, and Medium-Sized Enterprises (MSMEs), which stimulate innovation, job creation, and economic growth. Several scholarly investigations have underscored their crucial function, stressing their contributions to GDP, employment generation, destitution mitigation, and local development (IEOM Society International, 2022). It is impossible to overestimate the importance of MSMEs to Indonesia's economy, given that they make up more than 99% of all businesses there (World Bank, 2020). Despite their enormous contribution, MSMEs face numerous obstacles that limit their ability to grow, including difficulty obtaining financing, poor infrastructure, complicated regulations, and a lack of skilled labour (Burger et al., 2015).

Numerous problems, including limited financial access, regulatory restrictions, inadequate infrastructure, and talent gaps, have been identified as the main obstacles to growth, as the literature has extensively documented (Bagus, 2023). Inadequate financial resources hinder investment, innovation, and market growth, particularly for small and unincorporated businesses (Isomjonovna, 2021). MSMEs are discouraged from formalising their activities due to onerous bureaucratic procedures and unclear regulations, which results in inefficiencies and decreased competitiveness (Gandhi et al., 2022).

Focused policy measures are required to improve financial inclusion, tackle these obstacles, simplify regulatory structures, and support infrastructural advancement to establish a conducive atmosphere for expanding MSME operations. Innovation and technology adoption significantly influence MSMEs' competitiveness and sustainability. Technology adoption rates are still relatively low despite their acknowledged relevance. This is especially true for smaller businesses, where financial restrictions, a need for more understanding of available technologies, and skill gaps are some of the reasons (Gunawan & Somantri, 2023). The importance of policies supporting technology transfer, talent development, and entrepreneurship education is highlighted by the fact that MSMEs that embrace innovation and technology are more resilient and competitive (Cunningham et al., 2023).

MSMEs are essential to attaining the Sustainable Development Goals (SDGs) because they promote equitable economic growth, reduce poverty, and generate employment. Achieving the SDGs is possible for MSMEs, but they also face obstacles in social inclusion, environmental sustainability, and moral corporate conduct (DESA, n.d.). An all-encompassing strategy incorporating social, economic, and environmental factors into business plans and regulations is necessary to achieve sustainable MSME growth in Indonesia. This will promote ethical business practices and sustainable development methods (Heilmann & Ekatjahjana, 2019).

Hypothesis Development:

• Level of Competition in the World Market:

There is a notable difference in the competitiveness of Indonesian MSMEs in the global market, as evidenced by their comparatively lower share of the nation's overall exports compared to regions (Tambunan, 2019). We hypothesise that increasing international trade integration, especially through fortifying links to global supply and value chains, will significantly boost the export contribution of

Indonesian MSMEs, propelling economic growth and upgrading their position in the worldwide marketplace.

- **Policy Measures to Promote MSME Development:**

We propose that focused policy interventions to address these issues will promote an environment favourable to MSME growth and development, given the documented barriers Indonesian MSMEs face, such as restricted financial access, complicated regulations, inadequate infrastructure, and skill gaps. It is anticipated that policies that concentrate on boosting infrastructure, investing in skill development, facilitating financial inclusion, and simplifying regulatory frameworks will favour MSME performance and ultimately boost Indonesia's economy (Kementerian Koordinator Bidang Perekonomian, 2023).

- **Adoption and Innovation of Technology:**

A possible obstacle to sustainability and competitiveness is highlighted by the low technology adoption rates among Indonesian MSMEs, especially smaller companies. MSMEs will become more innovative, efficient, and competitive if policies that support technology transfer, adoption, and entrepreneurship education are implemented (Sijabat, 2022). As a result, MSMEs that use technology and innovation must show increased resilience and competitiveness in both domestic and foreign markets.

- **Sustainable Development Goals (SDGs) contribution:**

MSMEs are essential to attaining the Sustainable Development Goals (SDGs) because they promote equitable economic growth, the eradication of poverty, and creating jobs. Nevertheless, obstacles to environmental sustainability, social inclusion, and moral corporate practices prevent them from reaching their full potential in supporting the SDGs (Tambunan, 2023). We hypothesise that adopting all-encompassing approaches that incorporate social, economic, and ecological factors into the business practices and regulatory frameworks of MSME's will promote the sustainable growth of MSME's in Indonesia. These tactics should encourage moral business practices, responsible environmental management, and inclusive growth, coordinating MSME operations with the more general goals of sustainable development.

The research highlights the vital role that MSMEs play in Indonesia's economy, as well as important obstacles and future growth prospects. Policymakers can unleash the full potential of MSMEs, accelerating economic growth and helping to accomplish sustainable development goals by removing barriers to MSME development and promoting innovation, technology use, and sustainable practices.

Analysis and Discussion

The examination emphasises how important Micro, Small, and Medium-Sized Enterprises (MSMEs) are to shaping Indonesia's financial environment and how important they are as key economic drivers. Small, medium, large, and micro are the four sizes of enterprises that fall within this category. The following criteria are listed in Chapter IV and Article 6 of the Law of the Republic of Indonesia number 20 2008 concerning Micro, Small, and Medium Enterprises. The following are the criteria listed in Chapter IV and Article 6 of The Republic of Indonesia Number 20 of 2008 concerning Micro, Small, and Medium Enterprises that are used to categorise organisations as MSMEs (Hukumonline, 2008):

Micro Business:

A micro business is characterised by a net worth not exceeding IDR 50,000,000.00 (fifty million rupiahs), excluding the value of real estate and buildings designated for commercial use. Alternatively, a micro business can be identified by its annual sales proceeds, which should amount to IDR 300,000,000.00 (three

hundred million rupiahs) (Hukumonline, 2008).

Small Business:

A net worth that does not include the value of properties and land used for business operations falls between IDR 50,000,000.00 (fifty million rupiahs) and a maximum of IDR 500,000,000.00 (five hundred million rupiahs) and is considered a small business. Similarly, a small business's yearly sales revenues might range from more than IDR 300,000,000.00 (three hundred million rupiahs) to a maximum of IDR 2,500,000,000.00 (two billion five hundred million rupiahs) (Hukumonline, 2008).

Medium-Sized Businesses:

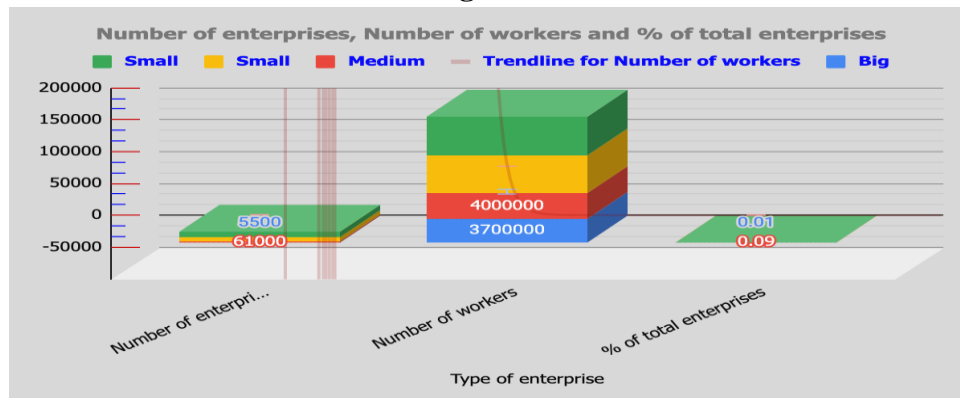
Excluding the value of properties and land needed for operations, a medium-sized business's net worth ranges from IDR 500,000,000.00 (five hundred million rupiahs) to IDR 10,000,000,000.00 (ten billion rupiahs). A medium-sized company's yearly sales proceeds also exceed IDR 2,500,000,000.00 (two billion five hundred million rupiahs) and can reach IDR 50,000,000,000.00 (fifty billion rupiahs) (Hukumonline, 2008).

Big businesses are classified, referred to in **table 1 (figure.1)**, as those with assets greater than IDR 10 billion, and about 5,500 of them employ about 3,700,000 people (Hukumonline, 2023). This represents 0.01% of all employers. With over 61,000 employees and an asset range of IDR 500 million to IDR 10 billion, medium-sized businesses comprise 0.09% of all companies. They employ about 4,000,000 people (OECD, 2018) IDR 50 million to IDR 500 million is the range of assets that characterise small firms, which number about 783,000 and employ about 6,000,000 people, constituting 1.1% of all enterprises (OECD, 2018). Defined by assets below IDR 50 million, micro firms account for most businesses with an estimated 63,350,000 total, 108,500,000 workers, and 98.7% of that total (OECD, 2018).

Table 1.

| Type of enterprise | Number of enterprises | Number of workers | % of total enterprises |
|--------------------|-----------------------|-------------------|------------------------|
| Big | 5500 | 3700000 | 0.01 |
| Medium | 61000 | 4000000 | 0.09 |
| Small | 783000 | 6000000 | 1.1 |
| Micro | 6350000 | 108500000 | 98.7 |

Figure. 1



The Economic Landscape of MSMEs in Indonesia

According to the report, MSMEs comprise over 61% of Indonesia's GDP, significantly influencing its overall economic growth trajectory. There is a considerable amount of Indonesia's economic production, even though it appears to be small compared to its dominant presence in the corporate sector. Approximately 97% of the workforce in the nation is employed by MSMEs, which are also the main source of income for the great majority of people. MSMEs also provide various work options for women, young people, and those without formal education. They are important (Tambunan, 2019) employers, especially in rural areas where larger firms are less prevalent. In addition, micro, small, and medium-sized enterprises (MSMEs) alleviate poverty by raising household income levels and improving living standards, especially in neglected and rural areas. They are also essential to decentralisation and regional development because they provide local economic growth opportunities, promote economic activity outside large urban centres, and lessen regional inequality (Tambunan, 2019).

Additionally, MSMEs act as centres of entrepreneurship and innovation, regularly launching cutting-edge goods, procedures, and company plans that boost market share and promote economic growth. As such, they are essential to creating jobs in the country. The high rate of job creation promotes socio economic stability and lowers unemployment rates. MSMEs are widely distributed; they account for 99% of all businesses in Indonesia (World Economic Forum, 2022). This broad impact highlights how ubiquitous they are in various industries and geographical areas, offering vital products and services to both urban and rural populations and advancing the country's general prosperity and growth.

MSMEs participate in many economic activities, advancing inclusive economic growth, entrepreneurship, innovation, and their statistical GDP contribution. They foster the development of fresh concepts, goods, and services that support resilience and economic dynamism. MSMEs are ultimately considered the foundation of Indonesia's economic activity because of their large GDP, employment creation, and general commercial presence. Indonesia's economic landscape would face significant changes that would have far-reaching effects on growth and development if they were not widely present and actively involved. The necessity for customised approaches to handle the particular difficulties faced by companies of varying sizes operating in the MSME sector is highlighted by this variation (Gunadi, 2022).

Constraints and Opportunities for MSME Growth in Indonesia

By considering their diverse requirements and features, policymakers and other interested parties can create focused interventions to help MSMEs grow and become resilient in Indonesia's changing economic climate. There are several obstacles that prevent MSMEs from expanding and being sustainable. Financing access is still a major barrier for MSMEs, who find it hard to obtain formal financial services because of their lack of credit history, little collateral, and strict bank lending requirements. Their capacity to innovate, grow their business, and make technological investments needs to be improved by this. Inadequate marketing knowledge, restricted networking possibilities, and limited marketing abilities also hinder the growth potential and competitiveness of many MSMEs, making it necessary for them to receive assistance in accessing both domestic and foreign markets (Tambunan et al., 2022).

In addition, a significant burden is associated with complicated regulatory requirements, especially regarding business registration, permits, licences, and labour law compliance. To address these issues, it is necessary to simplify and reduce bureaucracy (Fiqhiyyah et al., 2023). A highly qualified staff and managerial talents are also needed for MSMEs to embrace new technology, boost productivity, and

successfully compete in the market. These businesses frequently need help with capacity and skill shortages.

Support for Growth and Sustainability in Indonesia's MSMEs

Furthermore, poor infrastructure—which includes electricity, transportation, and communication—presents difficulties, especially for MSMEs in outlying areas, where access to digital tools and technology is restricted, making them less competitive. Finally, due to their limited resources and financial buffers, MSMEs are vulnerable to natural catastrophes, economic downturns, and external shocks, highlighting the need for resilience strategies to endure such crises. The Indonesian government launched several MSMEs-supporting programs in response to these difficulties. These include guarantee schemes, special lending programs, and financial inclusion initiatives to improve financial access via microfinance organisations (Gunadi et al., 2021). To further enhance the competencies and potential of MSME entrepreneurs, capacity-building and training programs offer technical support and mentorship.

To help MSMEs access local and foreign markets, market access facilitation initiatives provide connections, trade shows, and export promotion initiatives. Initiatives to streamline regulations also lessen administrative costs, improve business environments, and facilitate the expansion of MSMEs. MSMEs gain from improved connection and access to basic services in rural regions, another benefit of infrastructure development expenditures (ADB, 2015). MSMEs are essential to Indonesia's economic growth, to sum up. They must, however, overcome several obstacles that need focused interventions and legislative backing to realise their full potential and promote equitable and sustainable growth.

Heightening Efficiency and Competitiveness of Indonesian MSMEs Worldwide

The low integration of Indonesian MSMEs into global supply and value chains results in a 14% share of the country's total export performance, making export performance and international competitiveness major issues for these businesses. Regarding exports, MSMEs account for 41% of exports in Singapore and 60% in China, respectively; this ratio is in stark contrast to its regional competitors. The article accurately identifies this difference as a crucial sign of Indonesian MSMEs' low competitiveness in the international market.

This highlights the critical need for coordinated actions to improve Indonesian MSMEs' integration into global trade (Shofa, 2023). Policymakers and other stakeholders can enable MSMEs to compete more successfully in the worldwide marketplace, enhancing Indonesia's export performance and prospects for economic growth by removing obstacles to entry into international markets and establishing links to global supply chains. As the essay suggests, policy interventions and innovation are crucial to fully realise the potential of Indonesian Micro, Small, and Medium-Sized Enterprises (MSMEs).

The proposed focused policy interventions are intended to address the regulatory complexities, skill gaps, inadequate infrastructure, and limited financial access impeding the growth of MSMEs (Fahrati et al., 2024). The ultimate goal of these interventions is to promote productivity enhancements, stimulate innovation, and encourage the adoption of new technologies, all of which will increase MSMEs' competitiveness in both domestic and global markets. The importance of adopting sustainability principles and matching corporate operations with the Sustainable Development Goals (SDGs) to guarantee long-term growth and societal impact. Policymakers and stakeholders may stimulate innovation, sustainability, and inclusive economic growth in Indonesia by implementing these policy initiatives and establishing an environment favourable to MSME development (Supriadi et al., 2023).

Fostering MSMEs in Indonesia for Long-Term Sustainability

The main foci of the proposed hypotheses were increasing international trade integration, advocating policies that support MSME development, encouraging technology adoption and innovation, and coordinating MSME operations with sustainable development goals. To overcome obstacles and optimise the potential of MSMEs in Indonesia, these hypotheses serve as a roadmap for future research projects and policy actions. These hypotheses provide a framework for upcoming research projects and governmental actions to address recognized issues and maximise the potential of Indonesian MSMEs.

The MSMEs' critical role in advancing Indonesia's economic development and prosperity while recognizing the obstacles that need to be removed to realise their full potential (Bank, 2020). By enacting focused policy interventions, encouraging innovation and technology uptake, and supporting sustainability practices, Indonesian policymakers can provide the foundation for equitable and sustainable economic growth powered by a thriving MSME sector (Widyasanti et al., 2019). The research emphasises the vital role that MSMEs play as drivers of growth, employment, and innovation in Indonesia's economy by underlining the necessity of continued support and investment in these important sectors.

The size, asset-based categorization, and organisational structure of Micro, Small, and Medium-Sized Enterprises (MSMEs) are thoroughly examined in this research, which offers quantitative insights into the ubiquity of micro businesses (Eliana et al., 2023). Larger companies also have more resources and authority. This comprehensive analysis illustrates the varied composition within the MSME sector by revealing a complex landscape characterised by the coexistence of firms of varying sizes. Due to their limited resources, microbusinesses have a higher prevalence than bigger ones, indicating their numerical superiority.

Conclusion:

In conclusion, the research findings highlight how important Micro, Small, and Medium-Sized Enterprises (MSMEs) are to Indonesia's economic growth. Indonesian MSMEs need help with complicated rules, a shortage of trained labour, restricted access to financing, and inadequate integration into global supply chains despite their considerable contributions to GDP, job creation, and innovation. To overcome these challenges and fully realise the potential of MSMEs, swiftly putting innovative solutions into practice along with focused legislative initiatives are needed (Burger et al., 2015).

MSME operations must align with sustainable principles and the Sustainable Development Goals (SDGs) to increase efficiency, encourage innovation, and make technology adoption easier. These actions can foster an environment favourable to MSME growth and competitiveness in domestic and international markets (United Nations, n.d.).

Moreover, acknowledging the heterogeneous composition of the MSME sector, which is typified by the prevalence of micro-enterprises, emphasises the necessity for customised strategies to assist enterprises with differing scales (Hanggraeni & Sinamo, 2021). The study's primary flaw is that it only discusses the significance of MSMEs to Indonesia's economy without going into great detail on the particular challenges that each MSMEs faces.

Although the study recognizes certain barriers, such as labour shortages and regulatory difficulties, it needs to investigate the root causes of these issues in great detail or provide customised solutions. Furthermore, the study must be more explicit about the interventions required to address these issues. It would benefit from case studies or real-world examples that show how to get around regulations and improve access to financing.

Furthermore, the paper fails to investigate possible conflicts that could arise between the goals of sustainability and economic growth, highlighting the necessity of a balanced approach. Additionally, even though it is acknowledged that microbusinesses are common in the MSME sector, further research is necessary to fully understand the unique needs and difficulties that various industry participants encounter, which impedes the creation of customised plans.

Lastly, a more complete examination of the theories' possible outcomes and viability is required, even though they offer a foundation for further study and legislative actions. The research's use in assisting MSMEs and fostering equitable and sustainable economic growth in Indonesia might be improved by specific policy suggestions backed by empirical data or case studies.

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