

The role of MSMEs (Micro, Small and Medium Enterprises) in improving the national economy

Imam Mahfud

Master of Management, Binamadani Institute, Jl. KH Hasyim Ashari Gg. Ambon Kavling DPR, No. 236, Nerogtak Pinang, RT.003/RW.004, Kenanga, Kec. Pinang, Kota Tangerang, Banten 15148, Indonesia
e-mail: imam.mahfud74@yahoo.co.id

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ABSTRACT

In the era of globalization, development relies heavily on the economic sector as a benchmark for governmental success. Society's contribution to national development, particularly in the economic realm, is embodied by Micro, Small, and Medium Enterprises (MSMEs). MSMEs occupy a crucial and strategic position within the national economy. MSMEs have continued to grow year after year since the economic crisis. This also proves that MSMEs can survive amidst economic turmoil. Thus, MSMEs are considered to play a strategic role in reducing unemployment and poverty. Given the contributions and roles of MSMEs, the government must continue supporting MSMEs through reinforcement so that their role as pillars in building the nation's economy can function optimally. This study aims to understand the contribution of MSMEs to the economy. In addition, this study identifies the challenges and obstacles faced by MSMEs in the national economy. Library research was used, utilizing articles published in international and national journals related to the role of MSMEs in improving the national economy. The results of this study show that MSMEs contribute significantly to the national economy, although their implementation faces challenges. However, the government is striving to provide a range of stimuli to address these issues, so that MSMEs can continue to grow and become empowered.

Keywords: Economy, Society, MSMEs

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1. INTRODUCTION

Theoretically, economic improvement will significantly affect economic growth (Kurniawan & Managi, 2018). The economic sector is one of the pillars of building a country. The better a country's economy, the more prosperous its people will be. Therefore, a country's government will strive to ensure that its economic growth continues to develop. According to neoclassical theory, economic growth is influenced only by three factors: capital accumulation, labor, and technology, which are considered exogenous. This was criticized by Paul Romer, who developed endogenous growth theory. This theory emphasizes that technology, as a driver of economic growth, has been developed by researchers and practitioners and whatever they do, and has a long-term impact on economic growth.

The fundamental problem for a nation or state is seeking the ideal conditions of its society and how to realize it. The search for an ideal formula and strategy for societal change can be referred to as development. Development is an effort to enhance society's capacity to influence its future. Development has led to better changes in previous living standards. Economic growth is an indicator of national economic development. Economic development is an urgent matter for a country, especially to increase income and improve people's welfare. Moreover, all development efforts encompass social, political, and cultural initiatives. To fulfill the needs of society, it is necessary to have job opportunities capable of absorbing every existing workforce (Maulida & Ahmad, 2017).

In terms of economic growth, at least two parties have interests: government and business actors. The government's interest in economic growth is complex and will certainly affect social, legal, and political conditions. Business actors are directly related to the conditions of their businesses. Moreover, Indonesia is known as a potential country for both domestic and foreign business players. This is because of the parity of the population's purchasing power, which is relatively high. The high purchasing power of Indonesians naturally drives an increase in the number of business actors, as there is a high market demand.

The role of society in national development, particularly economic growth, is significantly influenced by Micro, Small, and Medium Enterprises (MSMEs). These enterprises have crucial strategic positions in the national economy. MSMEs are often seen as the driving force behind economic development due to their ability to absorb a substantial workforce and facilitate the distribution of development outcomes. Moreover, MSMEs are recognized as vital components of the economy irrespective of their size. This prominence is largely due to the dominant presence of MSMEs in Indonesia's economy, with numerous industries spanning every economic sector, their strong potential for labor absorption, and their significant contribution to Gross Domestic Product (GDP).

Additionally, micro and small businesses excel in sectors that leverage natural resources and are labor-intensive, particularly in food crop agriculture, plantations, livestock, fisheries, trade, and restaurants (Ma'ruf et al, 2008). On the other hand, medium-sized enterprises are adept at adding value to the hotel, finance, rental, business services, and forestry sectors. Large enterprises have strengths in manufacturing, electricity, gas, communication, and mining industries. This dynamic illustrates that MSMEs and large businesses complement and rely on each other, even though MSMEs dominate labor absorption and national income contributions.

Historical facts also show that the economic crisis that hit Indonesia and led to a crisis of confidence in 1989 did not manage to change or influence small businesses. In fact, various economic studies by Mulyadi (2010) show that the Indonesian economy did not collapse because of the contributions of small business actors. Based on the previous explanations, this paper discusses the role of MSMEs in improving the national economy, the challenges faced by MSMEs, and the measures taken to address these challenges in supporting and realizing independent MSMEs.

2. METHOD

In compiling this article, the author used the literature method, which involves collecting and studying existing literature from various sources, such as journals, articles, websites, and others related to the preparation of this article. Furthermore, the author also used secondary data, with information

obtained from secondary data sources such as bibliographic materials, previous research, books, and activity reports from micro, small, and medium enterprise (MSMEs) practitioners.

3. THEORETICAL FRAMEWORK

3.1 UMKM

MSMEs play a significant role in reducing unemployment, providing job opportunities, decreasing poverty rates, improving welfare, and shaping a nation's character (Ariani & Suresmiathi, 2013). There are several definitions for Micro, Small, and Medium Enterprises. The following are the definitions of MSMEs by several institutions: First, Law No. 20 of 2008 on MSMEs Chapter 1 Article 1 defines a micro enterprise as a productive business owned by an individual or an individual business entity that meets the criteria for micro enterprises. A small enterprise is a standalone productive business conducted by an individual or business entity, which is a subsidiary of a company owned, controlled, or directly or indirectly part of a medium or large enterprise, meeting the criteria for a small enterprise. A medium enterprise is an independent, productive economic entity operated by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or directly or indirectly part of small or large businesses, with specific net assets or annual sales.

According to the Ministry of Cooperatives and MSMEs, small businesses (UK), including micro businesses (UM), are entities with net assets that do not exceed Rp. 200,000,000, excluding land and buildings for business premises and annual sales not exceeding Rp. 1,000,000,000. Medium businesses (UM) are entities owned by Indonesian citizens, with net assets ranging from more than Rp. 200,000,000 to Rp. 10,000,000,000, excluding land and buildings.

Bank Indonesia defines a small business as a productive enterprise owned by Indonesian citizens, which can be an individual business entity, a business entity without legal status, or a legal entity such as a cooperative. It is not a subsidiary or branch owned, controlled, affiliated, directly or indirectly, with a medium or large business. It has net assets of no more than Rp. 200,000,000, excluding land and buildings or annual sales of no more than Rp. 200,000,000. On the other hand, a medium business has fixed asset criteria that differ between manufacturing industries (Rp. 200,000,000 to Rp. 8,500,000,000), and non-manufacturing (Rp. 200,000,000 to Rp. 600,000,000).

In the law, the criteria used to define MSMEs, as stated in Article 6, are the value of net assets or assets that do not include land and buildings, business premises, or annual sales. The classifications of MSMEs are as follows: (1) Livelihood activities, which are micro, small, and medium enterprises used as job opportunities for earning a living, commonly referred to as the informal sector. Examples include street vendors; (2) micro enterprises, which are micro, small, and medium enterprises with an artisan character that have not yet developed entrepreneurial qualities; (3) small dynamic enterprises, which are micro, small, and medium enterprises that already possess entrepreneurial qualities and are able to take on subcontract and export work; and (4) fast-moving enterprises, which are micro, small, and medium enterprises with an entrepreneurial spirit and are on the path to transforming into large enterprises (UB).

Based on the above definitions, it can be concluded that MSMEs are businesses owned by individuals or entities that are not branches or subsidiaries of other companies, with business capital that meets predetermined benchmarks.

3.2 The Role of MSMEs

Micro, Small, and Medium Enterprises (MSMEs) are recognized for their crucial role in fostering development and economic growth, not only in developing countries but also in developed ones. In developed nations, MSMEs are particularly significant because they absorb more labor than large enterprises, similar to their role in developing countries. Moreover, their contribution to the growth of gross domestic product (GDP) surpasses that of large enterprises. MSMEs hold an important role both nationally and internationally. On an international scale, the OECD estimates that MSMEs make up 90% of companies worldwide and employ around 63% of the global workforce. Nationally, MSMEs contribute

up to 60% of total employment and up to 40% of national income (GDP) in developing countries (World Bank, 2015). On a national scale, MSMEs can create the majority of available formal jobs. According to the World Bank (2015), MSMEs create four out of five new positions available to workers in developing countries. See table 1

Table 1. Classification of Economic Sectors

Classification	Description
Agriculture, Livestock, Forestry, and Fisheries	Covers all types of exploitation and utilization of biological (living) objects/items originating from nature to meet needs or for other purposes.
Mining and Quarrying	The mining and quarrying sector includes the oil and gas subsector, the non-oil and gas mining subsector, and the quarrying subsector.
Processing Industry	The manufacturing industry is the activity of transforming raw materials into finished or semi-finished goods and/or turning items of lesser value into items of greater value, whether mechanically, chemically, by machine, or by hand.
Electricity, Gas, and Clean Water	Electricity covers the activities of generation, transmission, and distribution of electricity for household needs, businesses, industries, government office buildings, public street lighting, and various other purposes. Gas includes activities such as processing liquefied gas, producing gas through charcoal carbonation or by processes that blend gas with natural gas or petroleum or other gases, as well as distributing liquefied gas through a pipeline system to households, industrial companies, or other commercial users. Clean water includes activities such as the collection, purification, and distribution of raw or clean water from water terminals through water channels, pipes, or tank trucks (under a single administrative management along with its economic activities) to households, industrial companies, or other commercial users.
Buildings	Buildings or construction refer to activities involving the preparation, creation, installation, maintenance, or repair of buildings/constructions that are integrated with their location, whether used as residences or for other purposes.
Trade, Hotels, and Restaurants	Trade is the activity of reselling (without technical modifications) new or used goods. Hotel is part of the business sector category of accommodation provision and food and beverage services. A restaurant is defined as a food service business that operates in part or all of a permanent building, selling and serving food and beverages to the public on its premises.
Transportation and Communication	Transportation is the activity of moving people/passengers and/or goods/livestock from one place to another by land, water, or air using motorized or non-motorized vehicles. Communication is the provision of communication services for the public, whether through mail, telephone, telex, or pager radio connections.
Finance, Leasing, and Corporate Services	The financial sector, rental, and business services include financial intermediary activities, insurance, pension funds, financial intermediary support services, real estate, rental businesses, and business services.
Services	Services include activities of providing services to the community aimed at serving the interests of households, businesses, the government, and other institutions.

Source: Bank Indonesia, 2015

The role of MSMEs in Indonesia is stated in Articles 3 and 5 of Law No. 20/2008 on MSMEs. In Article 3, MSMEs play a role in building the national economy. Article 3 explains in more detail in Article 5 that MSMEs play a role in building the national economy through regional development, job creation, income distribution, economic growth, and poverty alleviation. In general, it can be concluded that MSMEs bring many positive contributions to society, ranging from job creation to income generation, on both national and international scales. Therefore, government support for the development of MSMEs is crucial for achieving national economic development. One way to assess the role of MSMEs in the economy is to examine the Gross Domestic Product (GDP). GDP represents the value of goods and services produced within a country over a specific year. Its purpose is to encapsulate economic activity into a monetary value for a given period. The total contribution of MSMEs to GDP is the sum of all economic sectors involving MSMEs. Economic activities are classified according to the

ISIC (International Standard Classification of All Economic Activities) framework, which was revised in 1968. This classification is designed to facilitate comparisons of economic activity levels across various types of activities.

3.3 Characteristics of MSMEs

The criteria, and classification of MSMEs differ in each country, adjusted according to the conditions and characteristics of the respective countries. As stated by the World Bank, the classification of business types and sectors is referred to as micro-, small-, and medium-sized enterprises (MSME), which is no different from the terminology used in Indonesia. In the USA, what is referred to as SMEs has fewer than 500 employees, is less dominant in its sector, and has fewer than 500 employees. Meanwhile, Japan sets its SME criteria for the manufacturing and service industries as those with between 34 and 300 employees. In Indonesia, the legal foundation for MSMEs is Law No. 20 of 2008, which regulates the criteria for MSMEs. The criteria for MSMEs include, among others, the size of annual turnover and total assets owned. In addition, there is a Government Regulation of the Republic of Indonesia Number 7 of 2021 concerning MSMEs. This government regulation aimed to facilitate and protect MSMEs from their operations. The regulation also demonstrates the government's support for empowering MSMEs. Through Regulation of the Coordinating Minister for Economic Affairs of the Republic of Indonesia Number 1 of 2022, the government has also made it easier for MSMEs to access financial institutions and banking. The government issued regulations concerning the People's Business Credit (KUR) so that MSMEs can more easily obtain financing or loans to develop their businesses.

To differentiate MSMEs, certain criteria and characteristics are required for their classification. According to Law No. 20 of 2008, Article 6 on MSMEs, these enterprises are categorized based on specific criteria: (1) Micro Enterprises: As per Law No. 20 of 2008, Article 6 regarding MSMEs, Chapter IV, Article 6, micro enterprises are defined as having net assets not exceeding Rp. 50,000,000 (fifty million rupiah), excluding land and buildings used for business premises, or having annual sales not exceeding Rp. 300,000,000 (three hundred million rupiah); (2) Small Enterprises: According to Law No. 20 of 2008, Article 6 regarding MSMEs, Chapter IV, Article 6, small enterprises are characterized by net assets exceeding Rp. 50,000,000 (fifty million rupiah) but not more than Rp. 300,000,000 (three hundred million rupiah), excluding land and buildings used for business premises, or having annual sales exceeding Rp. 300,000,000 (three hundred million rupiah) but not more than Rp. 2,500,000,000 (two billion five hundred million rupiah); (3) Medium Enterprises: As outlined in Law No. 20 of 2008, Article 6 regarding MSMEs, Chapter IV, Article 6, medium enterprises possess net assets exceeding Rp. 500,000,000 (five hundred million rupiah) but not more than Rp. 10,000,000,000 (ten billion rupiah), excluding land and buildings used for business premises, or having annual sales exceeding Rp. 2,500,000,000 (two billion five hundred million rupiah) but not more than Rp. 50,000,000,000 (fifty billion rupiah).

From the criteria according to the law, it can be understood that each type of enterprise has certain criteria/characteristics, which mean: (1) Micro Enterprises have assets of up to a maximum of 50 million and annual turnover of up to 300 million; (2) Small Enterprises have assets of more than 50 million up to 500 million, while their annual turnover is more than 300 million up to 2.5 billion; (3) Medium Enterprises have assets above 500 million up to 10 billion, and turnover from 2.5 billion up to 50 billion.

3.4 Profile, Opportunities, and Challenges of MSMEs

The existence of MSMEs has been proven during the Indonesian monetary crisis in 1998, the global crisis in 2008, and the Covid pandemic from 2019 to 2021. MSME businesses are present in nine main economic sectors in Indonesia. Sectors such as agriculture, plantations, forestry, fisheries, and trade are the most dominant. This is because the majority of Indonesians have long been engaged in these fields. LPPI and Bank Indonesia (2015) classified MSMEs into four categories: the first is the informal sector. Then, the second are MSMEs whose entrepreneurial spirit is lacking for business development. Third, there are MSMEs that have the capability to take on jobs from other parties and are export-oriented. Meanwhile, the fourth category is MSMEs that are able to transform into large-scale businesses.

The opportunities for MSMEs to grow their business are tremendous. Out of Indonesia’s nine main economic sectors, there are still many opportunities that MSMEs can enter and develop. In terms of raw materials, Indonesia is rich in resources, making them easy to obtain. MSMEs can also expand their businesses by exporting, such as through exports of rattan products, coconuts, coffee, and furniture. Business development based on digital technology has now become a requirement for businesses to remain competitive. In the new normal era following the Covid-19 pandemic, business practices and methods are certain to undergo changes, making product development and marketing strategies an excellent opportunity for MSMEs.

The challenges faced by MSMEs also come in various forms. Since the 1997-1998 monetary crisis through to the Covid pandemic from 2020 to 2021, MSMEs have faced challenges in accessing additional capital to grow their businesses. The government's efforts to encourage MSMEs to have easier access to capital through Coordinating Minister for Economic Affairs Regulation Number 1 of 2022 become a challenge in itself. Human resource development also poses a challenge for MSMEs, as human resources are the key to business success. The next challenge comes from technology, as the role of technology in today’s digital era enables MSMEs to develop and increase their income through marketing.

3.5 Various problems faced by MSMEs

A variety of issues and roles of MSMEs can be summarized from the results of various studies conducted both abroad and in Indonesia. Based on a mapping of literature studies, the problems and roles of MSMEs as economic centers are identified as follows in Table 2:

Table 2. The role of MSMEs in various economic cases

Article Title	Article Title	Problems and Role of MSMEs
(Susilo, Y, S & Sutarta, A, E, 2004), Economic Journal of Emerging Markets.	Masalah dan Dinamika Industri Kecil Pasca Krisis Ekonomi.	Problems faced by small industries and household businesses related to the procurement of raw materials, marketing, and skilled human resources.
(Warjiyo, U, P, 2005), Buletin Ekonomi Moneter dan Perbankan.	Default Risk dan Penjaminan Kredit UKM.	Non-performing microloans are at 0.70%, with credit institution guarantees amounting to 142.72 times total equity. The low budget value owned by SMEs can increase credit risk for banks.
(Rosengard, J, K & Prasetyantoko, A 2011), Asian Economic Policy Review.	If The Banks Are Doing So Well, Why Can't I Get a Loan? Regulatory Constraints to Financial Inclusion in Indonesia.	The decline in access to microfinance services in Indonesian banks has made it difficult for small and medium enterprises to obtain credit facilities.
(Tambunan, T., 2011), Gadjah Mada International Journal of Business.	Development of Micro, Small and Medium Enterprises and Their Constraints: A Story from Indonesia.	MSMEs contribute a larger share to GDP than large-scale businesses because there are so many MSMEs, although their productivity is low. The challenges faced by MSMEs are related to raw materials, marketing, and capital.
(Maulida, S & Yunani, A., 2017), Jurnal Ilmiah Manajemen dan Bisnis.	Peluang dan Tantangan Pengembangan Usaha Mikro Kecil Menengah (UMKM) Dari Berbagai Aspek Ekonomi.	Technology and sharia finance present opportunities for MSMEs to grow further. The government acts as a driving force to help MSMEs advance.
(Muheramtohad, 2017), Muqtasid Jurnal Ekonomi dan Perbankan Syariah.	Peran Lembaga Keuangan Syariah dalam Pemberdayaan UMKM di Indonesia.	MSMEs play a role in the national economy because they operate in the real sector. Financing from sharia financial institutions for MSMEs continues to increase.
(Sarfiah et al., 2019), Jurnal REP (Riset Ekonomi Pembangunan)	UMKM Sebagai Pilar Membangun Ekonomi Bangsa.	MSMEs play a strategic role in Indonesia's economy. MSMEs absorb labor and are resilient in times of crisis.
(Tambunan, T, 2019), Journal of Global Entrepreneurship Research	Recent Evidence of The Development of Micro, Small and Medium Enterprises in Indonesia	MSMEs contribute 58%-61% to GDP, with 42.84% of business owners being women. The main factor behind the growth of MSMEs is the desire to escape poverty.

(Djarmiko & Pudyastiw, 2020), Jurnal Pendidikan Kewarganegaraan Undiksha.	Obstacles And Challenges of Indonesia's Micro, Small And Medium Enterprises (UMKM) In Facing the Covid-19 Pandemic.	Strategies and improvements in the quality of products and services of MSMEs are essential to enable further development during the pandemic.
(Harahap et al., 2020), Jurnal Benefita	Tinjauan Defisit Fiskal, Ekspor, Impor dan Jumlah UMKM Terhadap Pertumbuhan Ekonomi Indonesia.	Economic growth is influenced by fiscal deficits and imports. In addition, the large number of MSMEs affects Indonesia's economic growth.
(Maksum et al., 2020), Journal of Open Innovation: Technology, Market, And Complexity.	A Social Enterprise Approach to Empowering Micro, Small and Medium Enterprises (SMEs) In Indonesia.	Micro enterprises absorb 98% of the workforce. The implementation of regional science and technology programs requires an anthropological and sociological approach. Cooperation between the government, academics, and SMEs is needed to ensure the program runs optimally.
(Adhikary et al., 2021), Journal of Small Business & Entrepreneurship.	Does The Government Credit Guarantee Promote Micro, Small, And Medium Enterprises? Evidence From Indonesia.	The provision of credit guarantees by the Indonesian government in 2010 and 2013 led to the growth of MSMEs in the industrial sector. Government credit guarantees had a significant impact on the credit demand from small and medium enterprises but did not affect micro enterprises.
(Arifqi, M, M & Junaedi, D, 2021), Al-Kharaj: Jurnal Ekonomi, Keuangan & Bisnis Syariah.	Pemulihan Perekonomian Indonesia Melalui Digitalisasi UMKM Berbasis Syariah di Masa Pandemi Covid-19.	The digitalization of MSMEs is expected to drive their recovery after the pandemic in order to boost economic growth.
(Disemadi, H, S, 2022) Law Reform.	Contextualization of Legal Protection of Intellectual Property in Micro Small and Medium Enterprises in Indonesia.	The government is working to develop MSMEs by simplifying regulations. Legal protection is provided for MSME actors and high-value intellectual property, so that intellectual property rights can be used as banking collateral.
(Koeswahyono et al., 2022), Cogent Social Sciences.	Legal Breakthrough of The Indonesian Job Creation Law for Ease, Protection, and Empowerment of MSMEs During The COVID-19 Pandemic.	MSMEs play a strategic role in Indonesia's economic recovery during the Covid-19 pandemic. Although affected by the pandemic, MSMEs quickly rebounded. The government has actively facilitated, protected, and empowered MSMEs for economic recovery.
(Yanto et al, 2022), Asian Economic and Financial Review.	The Roles of Entrepreneurial Skills, Financial Literacy, and Digital Literacy in Maintaining MSMEs During the Covid-19 Pandemic.	The sustainability of MSMEs during the pandemic is due to the digital and financial literacy of MSME owners. The capabilities of human resources, as well as loans from the government and related parties, need to be improved so that MSMEs can develop further.

Based on literature studies, it is explained that MSMEs (Micro, Small, and Medium Enterprises) play a very important and strategic role in the national economy. This role is related to economic growth, which ultimately will increase the GDP. In addition, MSMEs absorb a very large workforce. The absorption of this workforce certainly has an impact on reducing the unemployment rate. This is in line with the data released by the Ministry of Cooperatives and MSMEs from 2015-2019. However, many workers in the MSME sector still have an educational background equivalent to Senior High School (SMA). This is because many types of businesses in the MSME sector only require workers with a high school level education. For example, business actors in shoe-making, sandal production, motorcycle repair shops, and most culinary businesses. The challenges and obstacles experienced by MSMEs since the 1998 monetary crisis primarily relate to access to banking—specifically, access to credit. Access to banking is certainly connected to limited capital for MSME business development. Difficulty in accessing banking services is due to requirements that MSME actors are often unable to meet, such as the need to provide collateral and maintain well-documented financial transactions. Moreover, the collateral owned by MSME actors is usually of low value, which becomes a consideration for banks when providing capital to MSMEs.

In terms of capital, the existence of sharia financial institutions, especially sharia banks, can also be utilized by MSMEs. Issues related to raw materials and marketing are also classic problems in MSMEs. The price of raw materials, especially those needed by the industrial MSME sector, must remain stable, as this is also related to pricing the products sold. This will affect the marketing of MSME products. Opportunities to develop MSMEs are not only from the perspective of capital. Large capital will certainly not be maximized if it is not supported by the Human Resources (HR) capacity of MSME actors themselves. Especially during the pandemic, the HR capabilities of MSME actors were truly put to the test. One of the reasons MSMEs could not survive during the pandemic was declining sales turnover. In fact, this could be addressed through digital marketing or e-commerce and product development. This also represents an opportunity that MSMEs can use to develop their businesses in the digital era. The government continues to strive to encourage MSMEs to grow and be productive, particularly in the economic sector. Since the 1998 monetary crisis until the Covid-19 pandemic, the government has implemented many policies to encourage MSMEs to keep growing and developing, thus having an impact on economic growth. For example, policies related to law and intellectual property rights, such as patents, greatly assist MSMEs in business development. MSME legality is beneficial to MSMEs when dealing with banks, third parties, and potential business partners. The government also continues to facilitate MSME access to both conventional and sharia financial institutions. Furthermore, the government can encourage related parties such as state-owned and regional enterprises outside the banking sector to assist with funding, whether through Corporate Social Responsibility (CSR) programs or company grant funds.

4. RESULT AND DISCUSSION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the national economy by driving economic activities, offering employment opportunities, creating new markets, and serving as key players in local economies and community empowerment. They also contribute significantly to GDP and the balance of payments. The goal is to develop resilient and independent MSMEs that are highly competitive and lead in the production and distribution of essential goods, raw materials, and capital financing, enabling them to thrive in free market competition. MSMEs influence national economic and political stability, affecting large businesses that increasingly face challenges, while MSMEs and cooperatives manage to sustain their operations. As the largest segment of the national economy, MSMEs indicate the level of community participation across various economic sectors. They have consistently proven to be a reliable safety valve during crises, strengthening the community's business economic structure through their creation.

Well-being is a stage where a person's basic living needs are fulfilled so that they feel sufficient and have minimal anxiety in meeting their needs such as food, drink, health, and education. To achieve all of this, it is only natural that MSMEs can boost and become a source of welfare for the lower-middle income community. As is known, the important role of Micro Enterprises according to the Department of Cooperatives in the Cooperative Law of 2008 includes: Acting as the main players in economic activity, the largest providers of employment, key players in local economic development and community empowerment, creators of new markets and sources of economic growth, and their contribution to the balance of payments. Some of the benefits and roles of MSMEs are: (1) Improving the community's economy, including increasing family income, adding income for employees or workers, and providing additional income for community members who produce various types of food that can be sold to traders; (2) Reducing unemployment. The existence of MSMEs has indeed helped reduce unemployment among community members who previously did not have jobs as employees in certain shops or sales outlets; (3) Creating other entrepreneurs. With trading kiosks managed by MSMEs, various mobile businesses emerge within the local community, such as mobile clam skewer sellers, mobile fried snack vendors, mobile noodle sellers, and so on. Through the various types of businesses run by MSMEs, the economic welfare of the community can be improved because, through these enterprises, business owners, workers, and community members who produce different types of small-scale industries and food are able to meet

various needs such as: (a) Both primary and secondary family economic needs, (b) Children's educational needs, and (c) The assurance of public health through the income earned.

The impact of MSMEs is also evident in the Gross Domestic Product (GDP), which represents the value of goods and services produced within a country over a year. GDP serves to encapsulate economic activity into a monetary value for a specific period. The total contribution of MSMEs to the national GDP encompasses all MSME economic sectors. In 2020, MSMEs significantly contributed to GDP, accounting for 61.97% of the total national GDP, equivalent to IDR 8,573.89 trillion. Additionally, MSMEs played a crucial role in employment, absorbing 97% of the total workforce in the business sector that year. The vast number of MSMEs correlates directly with the availability of job opportunities in Indonesia, underscoring their major role in employment absorption.

Although they contribute significantly to national economic growth, MSMEs in Indonesia still face various challenges. The challenges for MSME human resources are generally due to low education, skills, and experience, as well as limited access to information. Furthermore, the outbreak of the Covid-19 pandemic hit almost every sector, with MSMEs being considered the most severely affected. There are three main challenges faced by MSME actors during the Covid-19 pandemic in the country.

The first challenge is from the supply side: since the implementation of Large-Scale Social Restrictions (PSBB) in almost all regions, many MSMEs have had difficulty obtaining raw materials. PSBB also disrupted logistic distribution, causing delays in delivery of ordered or purchased goods. The second challenge is cashflow issues.

It is well known that MSMEs are one of the drivers of national economic growth as reflected in rising Gross Domestic Product, which results from the role of Small and Medium Enterprises. Nevertheless, MSMEs remain vulnerable due to limited access to banking, the opening of free markets, and the lack of policies supporting the small business sector. The following outlines the internal and external weaknesses of MSMEs:

For the internal factors, the underdevelopment of MSMEs is caused by limited capital, technological innovation, skilled human resources, and a lack of established business networks. The explanations are as follows: (1) Limited capital: Capital is a key factor in business development. The limited capital owned by MSMEs makes it difficult to expand sustainable businesses. In general, MSMEs are owned by individuals or closed companies. Their capital is personal and limited; if there are additional funds, they usually come from bank loans or financial institutions; (2) Technological innovation: Another weakness of MSMEs is the lack of variety in their products; (3) Skilled human resources: Most small businesses grow traditionally and tend to be family businesses handed down from generation to generation. The lack of formal education, knowledge, and skills among small business human resources greatly influences business management, making it challenging for businesses to develop optimally; (4) Lack of established business networks: Business networks are vital for marketing products.

For external factors, these weaknesses are visible through several indicators, including: (1) The implementation of free trade: The establishment of free trade through AFTA in Southeast Asia, which has also spread to other Asian regions, indirectly forces MSMEs to survive and compete against products entering from any region; (2) Limited market access: As mentioned, limited market access causes locally produced goods to be less able to compete in domestic and global markets; and (3) Limited business infrastructure: The availability of business infrastructure is essential for MSMEs to compete.

Amidst the decline in MSME income and the myriad challenges faced by MSME actors, the government has implemented several stimuli, including loan restructuring policies, additional capital assistance, electricity bill discounts, and other financial support. These incentives are part of the National Economic Recovery (PEN) program, initiated in 2020 and extended into 2021. The PEN program's support for MSMEs amounted to IDR 112.84 trillion in 2020, benefiting over 30 million MSMEs. In 2021, the government allocated IDR 121.90 trillion in PEN funds to sustain the momentum of economic recovery. Additionally, the government is actively encouraging MSME actors to embrace digital platforms through the *Bangka Buatan Indonesia* (Gernas BBI) National Movement Program, which saw 11.7 million MSMEs go online by the end of 2020. The goal is to have 30 million MSMEs digitalized by 2030. Furthermore, the government is promoting the expansion of Indonesian exports through initiatives like

the ASEAN Online Sale Day (AOSD) in 2020. However, Indonesia continues to grapple with complex licensing issues due to numerous central and regional regulations, or "hyper-regulation," which complicate licensing across various sectors, leading to disharmony, overlaps, non-operational policies, and sectoral divisions. To address these challenges, the government enacted the Job Creation Law (UU Cipta Kerja) in 2020, focusing on the ease, protection, and empowerment of MSMEs. Through this law, the government aims to foster the growth and competitiveness of MSMEs.

5. CONCLUSION

MSMEs play a major role in economic activities; providing employment opportunities; creating new markets; being key players in the local economy and community empowerment; and contributing to GDP and the balance of payments. The contribution of MSMEs can also be seen through Gross Domestic Product (GDP). However, MSMEs in Indonesia still face a variety of challenges. There are three main challenges faced by MSME actors during the outbreak of the Covid-19 pandemic in the country. The first challenge lies on the supply side, the second involves cash flow issues, and the third is the significant drop in demand. In response to the current state of MSMEs, the government is actively working to provide support incentives through the National Economic Recovery (PEN) program. Additionally, the government is consistently encouraging MSME players to join digital platforms via the Proudly Made in Indonesia National Movement (Gernas BBI) Program. Furthermore, the government is promoting the expansion of Indonesian product exports through the ASEAN Online Sale Day (AOSD) activities in 2020. The role of Micro, Small, and Medium Enterprises (MSMEs) is crucial in enhancing community welfare, as they fulfill family economic needs, reduce unemployment, and cater to community demands by producing a variety of food items sold at MSME kiosks.

Ethical Approval

Not Applicable

Informed Consent Statement

Not Applicable

Disclosure Statement

The Authors declare that they have no conflict of interest

Data Availability Statement

The data presented in this study are available upon request from the corresponding author for privacy.

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Notes on Contributors

Imam Mahfud

Imam Mahfud is affiliated with Master of Management, Binamadani Institute Indonesia

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