

PROBLEMS FACING MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDONESIA: A LITERATURE REVIEW

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ABSTRACT

This study aims to determine the problems faced by MSMEs in Indonesia. This is based on the gap between the increase in the number of MSMEs in Indonesia and the improvement in the quality of MSME turnover or income. This article uses the literature review method to collect and document all existing academic efforts to answer the problem. The results of the research in this article are expected to provide knowledge about the obstacles or problems of MSMEs in Indonesia so that various government programs regarding MSME policies have not been effective and optimal.

Keywords: SMEs; MSME problems; literature reviews

1.0 INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are often considered as one of the instruments of a country's economic development (Ogbari (2004). In fact, various studies have confirmed the role of MSMEs in contributing to the growth of Gross Domestic Product (GDP) so that MSMEs become a pillar important for the country's economic growth (Ahmad, Nenova, & Niang, 2009). Therefore, Indonesia with a population of around 270 million plays an important role in developing MSMEs.

However, the use of MSMEs in Indonesia is still faced with various problems. The reason is that various financing and empowerment programs carried out by the government have not been able to encourage the increase in MSME businesses. This is based on the growth in the number of MSMEs which has not been accompanied by an increase in the quality of MSMEs in Indonesia. Therefore, MSMEs in Indonesia are still faced with various problems so that gaps emerge between policies and expected outcomes.

Data from reports from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) of the Republic of Indonesia (RI) recorded that the number of Micro, Small and Medium Enterprises (MSMEs) business actors reached 8.71 million in 2022. The number of MSMEs has increased compared to 2021 with the number a total of 65.46 million MSME units. This growth in the number of MSME business units places Indonesia as the country with the largest number of MSMEs in the ASEAN region and the country with the largest number of MSME sector workforce absorption in the ASEAN region (Asean Investment Report, 2022).

According to data from the Ministry of Cooperatives and SMEs in 2020, the contribution of MSMEs to Indonesia's GDP reached 61.1%, with a total value of IDR 11,824.8 trillion. Apart

from that, MSMEs are also the largest generator of employment opportunities in Indonesia, reaching around 97% of the total available employment opportunities. Therefore, statistical data regarding MSMEs shows that MSMEs have a strategic role in driving national economic growth.

Data on the growth in the number of MSMEs in Indonesia is also accompanied by an increase in the contribution of MSMEs to national GDP. Data from the Ministry of Cooperatives and SMEs records an increase in the contribution of MSMEs to GDP. In 2021, the contribution of MSMEs to GDP will be 61.07% or IDR 8,573.89 trillion. This number has increased compared to previous years. In 2017 the contribution of MSMEs to GDP was 57.08%, then increased by 3.26% in 2018 so that the contribution of MSMEs to GDP was 60.34%. Then in 2019 and 2020 the contribution of MSMEs to GDP remained at 60.00% and 60.16%.

However, the increase in the quality or number of MSMEs in Indonesia and the increase in the contribution of MSMEs to GDP have not been in line with the increase in turnover of MSME business actors. Haryanti's research results (2018) show that there is a gap in business competition between Small-Micro-Medium and Large business actors. This is because research published with the title "Portrait of Indonesian MSMEs: Little Ones Playing a Big Role" noted that the average realized turnover of Micro Businesses has only reached around 25% of the upper limit of turnover. Meanwhile, the average realized turnover for Small and Medium Enterprises shows better figures, respectively around 65% and 59% of the upper limit of turnover.

The issue of gaps in the structure of MSMEs in Indonesia leads the author to a critical statement, is the governance architecture of Indonesian MSMEs in a healthy condition? The reason is that the development of MSMEs in Indonesia is still quantitative and has not shown any qualitative development which includes increasing the turnover aspect of MSME business actors. In fact, MSMEs have the potential to alleviate significant poverty if they are managed well with the support of good government policies. Several previous empirical studies have shown a strong correlation between the role of MSMEs and poverty alleviation, both in developed and developing countries, such as West Virginia, USA (Gebremariam and Gebremedhin 2004), Pakistan (Ali, Rashid, and Khan 2014), Nigeria (Adeyemi and Lanrewaju 2014), and finally, in Indonesia (Nursini, 2020).

However, in Indonesia the governance architecture of MSMEs is still faced with several obstacles resulting in a gap in competition between SMEs and large businesses. This condition of MSMEs will result in an increasingly protracted imbalance in business actors in Indonesia, and will ultimately weaken the strength of MSMEs, which are dominated by small and medium-sized communities, to be unable to compete with large business actors in the arena of national economic equality.

The MSME governance structure as above will ultimately have social and societal impacts, namely that the gap between rich and poor will become wider, and as a result, economic sovereignty will be increasingly out of reach of society. Capital power will become increasingly centralized in developed countries and large companies, and even in the hands of just a few people. As the British House of Commons warned, if economic conditions do not undergo structural reform, then by 2030 2/3 of the world's wealth will be concentrated in the

hands of just 1% of the world's citizens (Devine & Orme, 2023). Inequality is widening, and widening; and also further confirms the adage 'the rich get richer, the poor get poorer.'

Based on the above, the author's deep concern about the condition of MSMEs was motivated to conduct a literature review regarding the problems faced by MSMEs in Indonesia. This is because identifying the problems faced by MSMEs in Indonesia is one of the important factors that determines the success or failure of efforts to develop MSMEs.

2.0 METHODOLOGY

This research uses a literature review approach, namely a method used to inventory all academic research around a problem. This means that this method aims to collect and document all existing academic efforts to answer problems as, or more or less similar to, the problems posed by research (Coope, 2017).

Data collection was obtained from internet browsing via the Researchgate.net site, which is a free social networking website and collaboration tool for scientists from all types of scientific disciplines. The Researchgate.net site was chosen for the reason of having the freedom to search for articles that are not only limited to articles published by journal publishing institutions in Indonesia.

The data population for this research is journal articles or research results with a focus on the issues or problems faced by MSMEs in Indonesia. The author uses several relevant key words as guidelines to act as filters in searching for journal articles, including: MSME challenges, MSME problems, and MSME policies.

3.0 RESULT AND DISCUSSION

Based on the results of a search of a number of literature on MSME governance issues in Indonesia, the author found quite significant articles based on impact factors and citations so that they are relevant to be used as a source of material for analysis (literature review) on the issues raised by the author. The literature in question can be seen in the table below.

Table.1. Literature Review

No	Judul Artikel	Penulis	Penerbit	Tahun & Vol
1	Recent evidence of the development of micro, small and medium enterprises in Indonesia	Tulus Tambunan	Journal of Global Entrepreneurship Research	(2019) 9:18
2	The Challenges of Micro, Small and Medium Enterprises In Indonesia in The Era of The Asean Economic Community	Rina Shahriyani Shahrullah, Febri Jaya, Inal Arifin	Syiah Kuala Law Journal	(2021), Vol. 5. (1), 124-138
3	Exploration of Technological Challenges and Public Economic Trends Phenomenon in the Sustainable Performance of Indonesian Digital	Muhammad Alfarizi, Tika Widiastuti dan Ngatindriatun	Journal of Industrial Integration and Management	(2023), 1-23.

	MSMEs on Industrial Era 4.0			
4	Regulatory Reforms to Increase Women Micro-Entrepreneurs Participation in E-Commerce	Siti Alifah Dina & Thomas Dewaranu	Center for Indonesian Policy Studies	(2022), Policy Paper No. 48
5	Ketahanan UMKM di Indonesia menghadapi Resesi Ekonomi	Eugenia Mardanugraha & Akhmad Junaidi	Jurnal Ekonomi dan Pembangunan	(2022), Vol. 30 No. 2.
6	UMKM dalam Perspektif Pembiayaan Inklusif di Indonesia	Darwin	Jurnal Ekonomi dan Pembangunan	(2018), Vol 26, No.1.
7	Definisi Dan Model UMKM Naik Kelas (Scaling Up)	Tim Riset PRKKEK-BRIN	BRIN & Pusat Riset Koperasi, Korporasi, dan Ekonomi Kerakyatan (PRKKEK)	(2022), https://fiskal.kemenkeu.go.id
8	Desain Digital Complementary Marketing Pada Perberdayaan Social Entrepreneurs Berbasis Kearifan Lokal Bali	Ni Putu Sri Harta Mimba, et.al	Proceedings Progress Conference	(2021), https://proceedings.itbarticle/
9	Identifikasi Berbagai Permasalahan yang Dihadapi Oleh UKM dan Peninjauan Kembali Regulasi UKM Sebagai Langkah Awal Revitalisasi UKM	Ira Maya Hapsari	PERMANA	(2014), Vol. V No.2.
10	E-commerce adoption by SMEs in developing countries: evidence from Indonesia	Rita Rahayu dan John Day	Eurasian Business Review	(2017) 7:25–41 DOI 10.1007/s40821-016-0044-6

The results of research using the literature review method on related articles are explained below.

Article (1) Tulus Tambunan (2019) in his research found several obstacles or challenges faced by MSMEs in Indonesia. MSMEs in Indonesia face several challenges, including limited access to capital, business information, technology and skilled labor; difficulties in marketing and procurement of raw materials; and government policies or regulations that often create a hostile business environment. (Tambunan, 2019). Apart from that, MSMEs also face obstacles in obtaining export permits, a lack of skilled workers with extensive knowledge of international trade and English language skills, as well as a lack of information related to exports (Tambunan, 2019: 10-11).

Article (2) specifically, article (2) describes two factors and problems faced by MSMEs in Indonesia (Shahrullah, et.al, 2021: 135). First. Internal factors. This factor includes several things, including: a) Limited human resource capabilities: b) Constraints in product marketing: c) Low consumer confidence in the quality of MSME products: d) Business capital constraints.

Second. External factors: a) solutions that are not on target. b) There is no monitoring and overlapping programs.

The author's article (3) highlights the importance of developing a digital mindset among MSMEs, integrating Big Data and the Internet of Things (IOT) in business operations, and overcoming internal challenges through strategic efforts and external collaboration. This article concludes that the challenge for MSME business actors in Indonesia is experiencing limited resources in terms of market affordability (Alfarizi, et.al, 2023: 23). The factor of not yet adopting the use of technology for sustainable business development is one of the challenges faced by MSMEs in Indonesia. In the author's view, the adoption of Big Data in small businesses, especially in customer data analysis, will encourage deeper technology implementation which will have an impact on business efficiency, increased market performance and more sustainable business quality (Alfarizi, et.al, 2023: 23).

Article (4) finds that most microenterprises are unaware of licensing obligations because micro entrepreneurs consider licensing compliance to be a long and expensive process so these licensing requirements may discourage them from joining digital marketplaces.

Article (5) found that MSMEs in Indonesia that were able to survive the economic recession during the pandemic were MSME business actors who had loans from banks. Therefore, the existence of MSMEs in Indonesia is not enough to face the economic recession because the majority of MSME business actors are MSMEs in the non-formal sector which are run individually so their existence is not monitored by the government.

Article (6) provides a conclusion regarding the conditions of MSME credit financing in Indonesia. In general, a classic problem for MSMEs, especially micro and informal businesses, is low access to financing institutions which also results in them falling into the trap of loan sharks. Apart from that, the conclusion of article (6) provides an overview of MSMEs as the majority of business actors only getting a small share with a decreasing trend. In other words, the majority of MSME business actors still find it difficult to gain access to credit compared to large businesses which are generally also controlled by foreign parties.

Article (7) discusses several problems related to the government's efforts to encourage MSMEs to upgrade (scaling up), such as regulations that do not clearly position MSMEs in terms of definitions and parameters of MSME turnover.

Article (8) discusses the obstacles to digitalization in culture-based MSMEs. MSMEs already have internet facilities, but it is still relatively rare for them to use them to obtain information that is useful for the company's progress. On the other hand, most internet use is still for entertainment media.

Article (9) discusses financial problems and non-financial problems (management organization) in managing MSMEs in Indonesia. Financial problems include the mismatch between the funds that MSMEs can access, the systematic approach of MSMEs, high credit application costs, access to formal funding, credit interest, and SMEs that are not yet bankable. Non-financial problems generally involve limited human resources so they cannot adapt to technology, marketing strategies, financial management.

Article (10) discusses obstacles to the adoption of e-commerce by SMEs in Indonesia as a developing country. This can be seen from 32.5% of MSMEs still using static sites, 25% interactive sites, and 7.2% of MSMEs not yet involved digitally. Therefore, the research in article (10) shows that the adoption of e-commerce by SMEs in developing countries, especially in Indonesia, is still low. Most of them are email and website adopters (both static and interactive websites). Compared with SMEs in developed countries, the level of e-commerce adoption by Indonesian SMEs is far behind.

4.0 CONCLUSION

The results of a literature review of 10 research articles provide a perspective that the development of MSMEs in Indonesia is still faced with various challenges and obstacles. In particular, from the various problems faced by MSMEs based on the results of the research that is the object of study in this article, the problems faced by MSMEs in Indonesia can be concluded, but are not limited to, among others: First. Access and distribution of MSME funding. Second. Limited human resources. Third. MSME Technology Adoption. Fourth. Gender Discrimination against women in MSMEs. Fifth. Inconsistencies in MSME Policy. Sixth. MSME Institutions. Therefore, the various problems faced by MSMEs above need to be used as the basis for MSME policy governance in Indonesia. The reason is that data-based policies (evidence based policies) through a review of research results can be used to formulate and evaluate MSME governance policies in Indonesia so as to eliminate MSME obstacles.

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