

THE ROLE OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) IN SUPPORTING THE INDONESIAN ECONOMY

Winda Salsabillah, Hafizzallutfi, Nur Azizah, Uut Tarissyaa, Thia Fathona, Muhammad Raihan

Universitas Islam Negeri Raden Fatah Palembang, South Sumatra

E-mail: Windasalsabillah16@gmail.com

ABSTRACT

Indonesia's economy has great potential to achieve sustainable and inclusive growth. In this context, Micro, Small, and Medium Enterprises (MSMEs) play an important role in supporting the country's economy. This paper aims to analyze the role of MSMEs in supporting the Indonesian economy and how strengthening the MSME sector can have a positive impact on economic growth, job creation, and reducing economic disparities in the country.

Keywords: *MSMEs, Economy, Sustainable, Inclusive*

INTRODUCTION

Indonesia's economy is one of the largest economies in Southeast Asia and has great potential to achieve sustainable and inclusive growth. In this context, Micro, Small, and Medium Enterprises (MSMEs) play a very important role in supporting and strengthening the country's economy. MSMEs in Indonesia are not only a source of income for the community, but also a major contributor to economic growth, job creation, increased competitiveness, and reduced economic disparity.

MSMEs in Indonesia can be defined as business units that have a small scale, limited number of employees, and limited resources. However, despite these limitations, MSMEs have tremendous potential to grow and develop. According to the latest data, the number of MSMEs in Indonesia reaches around 64.2 million business units, which shows that MSMEs have wide coverage in various economic sectors. (Ministry of Cooperatives and SMEs:2023)

The role of MSMEs in supporting the Indonesian economy is very diverse. MSMEs account for most of the employment in the country. Data from the Central Statistics Agency (BPS) shows that MSMEs provide jobs

for around 97% of the total workforce in the private sector. This means that MSMEs provide employment opportunities for the wider sector of society, including those living in rural and remote areas.

In addition, MSMEs also have a significant contribution to economic growth. According to BPS data, MSMEs contribute around 61% of non-oil and gas Gross Domestic Product (GDP) in 2023. The economic growth of MSMEs is reflected in increased production, increased added value, and contribution to exports.

In addition to their contribution to economic growth and job creation, MSMEs also have the potential to reduce economic disparities in Indonesia. In many cases, MSMEs are located in rural and remote areas that were previously marginalized from economic development. By empowering MSMEs in this area, the gap between urban and rural areas can be reduced, and economic equality can be achieved.

However, despite having great potential, MSMEs in Indonesia also face various challenges. These challenges include access to capital and financing, limited skills and knowledge, limited market access, and unsupportive infrastructure. Hence, continued support from governments, private sectors, financial institutions, and other relevant institutions. (Adawiyah, W. R. 2013:9)

Amid Indonesia's economic growth, the Micro, Small, and Medium Enterprises (MSMEs) sector plays an important role in supporting the country's economy. MSMEs are business sectors consisting of small businesses with a relatively small scale and have limited employees and capital. Nevertheless, MSMEs have great potential to boost economic growth, create jobs, and reduce socio-economic disparities.

MSMEs in Indonesia have a strategic role in realizing the vision of national development. In recent decades, the Indonesian government has paid special attention to this sector, both through policies and programs aimed at increasing the competitiveness and capacity of MSMEs. In this context, the role of MSMEs in supporting the Indonesian economy can be seen from several important aspects.

First, MSMEs play a role in creating jobs. As a sector that absorbs labor significantly, MSMEs provide job opportunities for communities

underserved by the formal sector. By providing job opportunities, MSMEs can reduce unemployment and poverty rates in Indonesia.

Second, MSMEs contribute to national income. MSMEs contribute significant income to the national economy through the production and sale of products or services. Although the business scale is small, the number of MSMEs is so large that collectively they make an important contribution to the Indonesian economy.

Third, MSMEs play a role in local and regional development. MSMEs tend to operate at the local or regional level, prioritizing the supply of goods and services locally. In this case, MSMEs help encourages economic growth in the surrounding areas, increase economic connectivity between regions, and reduce development inequality between regions.

Fourth, MSMEs play a role in advancing innovation and creativity. As a more flexible and adaptive sector, MSMEs have the potential to innovate in products, services, and business processes. MSME innovation can encourage sustainable economic growth, increase competitiveness, and open export opportunities.

Fifth, MSMEs have a positive social impact. Many MSMEs are managed by local communities and families, so they play a role in strengthening the social structure and sustainability of local culture. MSMEs can also promote sustainable business practices, such as the use of local raw materials, environmentally friendly practices, and community development.

To optimize the role of MSMEs in supporting the Indonesian economy, the government continues to make efforts to provide policy support, financial access, training, and necessary infrastructure. In the digital era, the government has also encouraged MSMEs to utilize information and communication technology in expanding markets, increasing efficiency, and facing global challenges.

With their various potentials and roles, MSMEs have a significant contribution to the Indonesian economy. Through the right support, MSMEs can continue to grow, create job opportunities, encourage sustainable economic growth, and strengthen social structures and environmental sustainability throughout the country.

RESEARCH METHOD

This research uses a qualitative approach by collecting data from various sources, including literature studies, and policy analysis. The data collected were analyzed using a descriptive method with this research method being a research that uses a qualitative descriptive approach. With descriptive research, researchers intend to describe (describe) or explain the symptoms that are occurring.

RESULTS AND DISCUSSION

According to Law of the Republic of Indonesia Number 20 Article 3 of 2008, Micro, Small, and Medium Enterprises have the aim to grow and develop their businesses to build a national economy based on equitable economic democracy. Micro, Small, and Medium Enterprises consist of:

1. *Livelihood activities*, is a small and medium enterprise that is used as a job opportunity to make a living, which is more commonly known as the informal sector. Examples are pempek, egg rolls, es cendol, rujak fruit, and cilok vendors known as street vendors.
2. *Micro enterprise*, is a small and medium business that has the nature of craftsmen but does not yet have the nature of entrepreneurship.
3. *Small dynamic enterprise*, is a small and medium enterprise that already has an entrepreneurial spirit and can accept subcontracting and export work.
4. *Fast moving enterprise*, is a small and medium enterprise that already has an entrepreneurial spirit and will transform into a large business (industry / company)

The Government of Indonesia continues to strengthen economic growth in Indonesia. One of the supporting sectors that has an active and strategic role in Indonesia's economic growth is micro, small, and medium enterprises (MSMEs). (Tarigan, Z.N.A.B., 2022:1). The development of MSMEs in Indonesia currently shows a positive and promising trend. Here are some aspects of the development of MSMEs in Indonesia in recent years:

1. **Growth in the Number of MSMEs:** The number of MSMEs in Indonesia continues to increase from year to year. According to the latest data from the Ministry of Cooperatives and Small and Medium

Enterprises (Kemenkop UKM), in September 2023, the number of MSMEs in Indonesia will reach around 64.2 million business units. This growth reflects the strong interest of the community to engage in small and medium enterprises.

2. **Contribution to the Economy:** MSMEs play an important role in the Indonesian economy. According to data from the Central Statistics Agency (BPS), MSMEs contribute around 61% to non-oil and gas GDP (Gross Domestic Product) in 2023. This contribution covers sectors such as trade, services, industry, and agriculture.
3. **Job Creation:** MSMEs are the main contributor to job creation in Indonesia. Data from the Central Statistics Agency (BPS) shows that by 2023, MSMEs will provide jobs for around 97% of the total workforce in the private sector. The growth of MSMEs directly contributes to reducing the unemployment rate in the country.
4. **Government Support:** The Government of Indonesia has provided significant support for the development and growth of MSMEs. These measures include providing financial access through programs such as the People's Business Credit (KUR), entrepreneurship training, facilitation of market access, and provision of supporting infrastructure.
5. **Digitalization and Innovation:** MSMEs in Indonesia are increasingly adopting digital technology and innovation to improve their competitiveness. The use of e-commerce platforms, social media, and other technologies has opened up new opportunities for MSMEs to expand market reach and improve operational efficiency.

Although the development of MSMEs in Indonesia shows positive progress, there are still several challenges that need to be overcome. Some of them are access to capital, limited skills and knowledge, limited market access, and unsupportive infrastructure. Therefore, continuous support from the government, private sector, and other relevant institutions is important to strengthen the development of MSMEs in the future.

The potential of Indonesian MSMEs in supporting the Indonesian economy in the future is very large. Here are some of the potentials possessed by Indonesian MSMEs:

1. **Job Creation:** MSMEs have great potential to continue to create new jobs in various sectors of the economy. Significant growth in the

number of MSMEs will contribute to reducing unemployment and improving people's welfare.

2. **Inclusive Economic Growth:** MSMEs are the backbone of a strong economy, especially in rural and remote areas. By empowering MSMEs, local economic potential can be developed and economic disparity between urban and rural areas can be reduced. The inclusive growth of MSMEs will also increase the purchasing power of the community as a whole.
3. **Innovation and Creativity:** MSMEs are often a place for diverse innovation and creativity. In the era of digital and information technology, MSMEs have the opportunity to adopt new technologies, improve operational efficiency, and expand market reach. This innovation can increase the competitiveness of MSMEs on a local, national, and international scale.
4. **Environmental Sustainability:** Indonesian MSMEs also have the potential to become actors in sustainable development. In dealing with environmental issues such as climate change and environmental degradation, MSMEs can play an important role in adopting environmentally friendly business practices, the use of renewable energy, and sustainable waste management.
5. **Export and International Trade:** Indonesian MSMEs have great potential to increase their contribution to international exports and trade. By strengthening product quality, improving production standards, and utilizing global market access through e-commerce platforms, MSMEs can develop wider business networks and increase state revenues through exports.
6. **The Indonesian government** has recognized the potential of MSMEs in supporting the country's economy and has implemented various policies and programs to support the development of MSMEs. In order to harness this potential, continued support from governments, the private sector, financial institutions, and other relevant institutions is essential. Through the right support, Indonesian MSMEs have great potential to become a driving force for inclusive economic growth, improving community welfare, and reducing economic disparities in the future.

MSMEs have an important role in supporting the Indonesian economy. Their contribution to economic growth, job creation, reduction of socio-economic inequality, increased innovation, local economic development, and preservation of cultural and environmental heritage make MSMEs the backbone of a strong and sustainable economy in Indonesia. Therefore, it is important for the government and relevant stakeholders to continue to provide support and policies that support the growth and development of MSMEs in the country.

1. **Contribution to Economic Growth:** Micro, Small, and Medium Enterprises (MSMEs) play a significant role in supporting Indonesia's economic growth. Despite the small scale of the business, the number of MSMEs that exist is very large, and collectively they make an important contribution to the country's economy. MSMEs account for the majority of Indonesia's gross domestic product (GDP) and create significant employment. Strong MSME growth contributes to an increase in national income and drives other sectors of the economy.
2. **Job Creation:** MSMEs are the main source of job creation in Indonesia. As a sector that absorbs labor significantly, MSMEs provide job opportunities for communities underserved by the formal sector. MSMEs also play a role in reducing unemployment and poverty rates by providing employment opportunities to many individuals. In addition, MSMEs also expand access to job opportunities, especially in areas far from urban centers.
3. **Reducing Socio-Economic Inequality:** MSMEs also play an important role in reducing socio-economic inequality in Indonesia. Since many MSMEs operate at the local or regional level, they help drive economic growth in remote or marginalized areas. By providing economic opportunities to people in the region, MSMEs help reduce development disparities between regions and reduce economic disparities.
4. **Increased Innovation and Creativity:** MSMEs are often a source of innovation and creativity in the economy. Because of their size and flexibility, MSMEs can adapt to market trends, meet consumer needs quickly, and innovate in products, services, and business processes. Innovations made by MSMEs can help increase their competitiveness and expand their market share. In addition, MSMEs can also advance

the industrial sector as a whole by bringing new ideas and creative solutions into the market.

5. **Local Economic Development and Self-Reliance:** MSMEs support local economic development by prioritizing the supply of goods and services locally. In this case, MSMEs help build strong local supply chains and encourage regional economic independence. By prioritizing the use of local raw materials, MSMEs also contribute to the development of the agricultural sector and processing industries in the surrounding area.
6. **Safeguarding Cultural and Environmental Heritage:** Many MSMEs are managed by local communities and families, making them custodians of cultural and environmental heritage in Indonesia. MSMEs often implement sustainable business practices, such as the use of local raw materials, environmentally friendly practices, and empowering local communities. Through this sustainability, MSMEs help maintain cultural diversity, protect the environment, and promote sustainable development.

In conclusion, MSMEs have an important role in supporting the Indonesian economy. Their contribution to economic growth, job creation, reduction of socio-economic inequality, increased innovation, local economic development, and preservation of cultural and environmental heritage make MSMEs the backbone of a strong and sustainable economy in Indonesia. Therefore, it is important for the government and relevant stakeholders to continue to provide support and policies that support the growth and development of MSMEs in the country.

CONCLUSION

MSMEs have an important role in supporting the Indonesian economy. In facing existing challenges and opportunities, strengthening the MSME sector is a priority in an effort to achieve inclusive economic growth, sustainable job creation, and reducing economic disparities. Through appropriate policy support, access to adequate resources, and collaborative efforts between the government, private sector, and other relevant institutions, MSMEs can become the backbone of Indonesia's strong and sustainable economy.

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