

Historical Analysis of MSMEs in Indonesia: Milestones and Transformation

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ABSTRACT

This literature review paper was conducted to observe the development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, which have undergone significant transformations over time. By applying a historical analysis framework, the paper traces the evolution of MSMEs in Indonesia, highlighting key milestones, challenges, and the impact of economic policies on their development with the data being gathered from academic journals, government reports (e.g., the Ministry of Cooperatives and MSMEs, Statistics Indonesia), and industry reports from organizations like the Asian Development Bank (ADB). In the pre-independence era, MSMEs were providers of local goods and services, although hindered by exploitative colonial policies. Next, in the Old Order and New Order eras, although MSMEs began to receive attention, the large sector was still prioritized in economic policies. Greater attention to MSMEs emerged after the 1997-1998 crisis, where MSMEs demonstrated extraordinary resilience and became one of the pillars of Indonesia's economy. In the reform era, decentralization allowed MSMEs to develop throughout Indonesia, with increasingly supportive policies such as People's Business Credit (KUR) and entrepreneurship training.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have played an important role in Indonesia's economy from the pre-independence era to the current digital age. The long journey of MSMEs reflects a solid adaptation to facing dynamic economic, political, and social changes. Before independence, MSMEs in Indonesia developed within the colonial economic structure that limited the business activities of the indigenous population. At this time, the MSME sector was dominated by agricultural businesses, small trade, and handicrafts that supported local needs. However, the limited access to capital, skills, and education has caused this sector to develop less significantly. With the emergence of the nationalist movement, MSMEs began to receive attention, although structural support was minimal (Candra & Ismail, 2023).

Before independence, MSMEs in Indonesia developed under economic conditions controlled by colonialism. The MSME sector was limited to traditional businesses such as agriculture, crafts, and small trade, with significant constraints in access to capital and resources imposed by colonial policies that favoured foreign economies. After Indonesia gained independence during the Old Order era, Sukarno's government attempted to build a strong national economy, including the MSME sector as part of the people's economy with a socialist economic concept. However, the economy during this period was more focused on centralist policies and state enterprises, so the role of the MSME sector was still limited (Mutmainnah, 2022). The main challenges for SMEs at this time are restricted access to capital and technology and dependence on the local market. SMEs must survive amidst economic uncertainty and high inflation. The solutions and innovations that have emerged during this period are mostly community self-help and business communities supporting each other (Tafrilyanto et al., 2022).

Moving into the New Order era, MSMEs began to find their place in national economic policy. The government introduced various credit and training programs to build small businesses as part of the economic development strategy. The main challenges MSMEs face now are competition with large companies and limited infrastructure. However, SMEs are starting to adapt with the support of credit programs from banks, such as Small Business Credit (KUK) and People's Business Credit (KUR), which have been launched to improve access to capital. Innovation in business management and partnerships with the industrial sector are emerging, providing fresh air for the more competitive development of MSMEs (Al Farisi et al., 2022).

In the Reform Era, MSMEs received more outstanding support with the advent of economic liberalization and regional autonomy. This condition allows MSMEs to develop further due to access to a broader market. However, MSMEs face new challenges in the form of increasingly tight global competition and rapid regulatory changes. Through various programs such as the National Movement to Buy Local Products, the government is striving to encourage the consumption of MSME products to enhance their competitiveness. Innovation in marketing, such as the use of digital technology, began to be adopted by MSMEs,

although at that time, its use was still limited among small businesses (Baihaqi, 2023).

When the COVID-19 pandemic hit, MSMEs faced extremely heavy challenges. Mobility restrictions, a decline in public purchasing power, and disruptions in the supply chain have put many SMEs at risk of going bankrupt. However, this situation also encourages SMEs to be more creative and innovative. Many MSMEs have started switching to digital platforms and e-commerce to reach consumers. The government also provided direct assistance through Micro Business Productive Assistance (BPUM) and tax incentives to help MSMEs survive the pandemic. In addition, digital training and technical assistance are provided to encourage the digital transformation of MSMEs to be more adaptive in crises (Fitriani et al., 2023).

In the current digital era, MSMEs in Indonesia have greater opportunities to grow through the utilization of technology. Digital platforms, such as marketplaces and social media, open up broader market access domestically and internationally. However, new challenges have emerged in the form of competition with imported products and the digital divide among MSME actors. The government strives to support SMEs through policies accelerating digital transformation, such as the MSMEs Go Digital program and e-commerce training. Support for technological infrastructure is also being enhanced so that MSMEs can make the most of technology (Fitriani et al., 2023).

The long journey of MSMEs in Indonesia illustrates how these small and medium enterprises continue to adapt to the challenges of the times. With various government programs supporting the sustainability and competitiveness of MSMEs, it is hoped that this sector can increasingly contribute to the national economy and create broader employment opportunities. Innovation and appropriate policies are greatly needed so that Indonesian SMEs can continue to survive and thrive amidst dynamic global changes.

To gain a comprehensive understanding of the development of MSMEs in Indonesia, this literature review paper aims to (a) examine the transformative phases of Indonesia's MSMEs, from pre-independence to the current digital age, along with their key milestones, characteristics, and challenges, and (b) explore the economic policy implemented.

LITERATURE REVIEW

According to the 1945 Constitution, which MPR Decree later reinforced No. XVI/MPR-RI/1998 on Economic Politics in the Context of Economic Democracy, the empowerment of Micro, Small, and Medium Enterprises (MSMEs) is an integral part of the people's economy that holds a strategic position in realizing a more balanced, developed, and just national economic structure. This indicates that MSMEs play an essential role in efforts to improve community welfare through a more equitable economic distribution. (Nita et al., 2022). Regarding MSMEs, the Indonesian government initially issued Law No. 9 of 1995, later updated with Law No. 20 of 2008 Article 1, which details the classification of businesses based on specific criteria. In Law No. 20 of 2008, MSMEs are defined as follows (Hasan et al., 2021).

- a. Micro Enterprises are productive businesses owned by individuals or sole proprietorships with criteria regulated in this law. Micro enterprises usually have a small scale in terms of assets and turnover, but they still contribute to the local and national economies.
- b. Small enterprises are productive economic activities that stand alone and are owned by individuals or business entities not affiliated with larger companies, either directly or indirectly. Small enterprises have the potential to grow, especially in supporting job creation and economic equity.
- c. Medium Enterprises are productive activities that stand alone and are not directly related to small or large enterprises, either as subsidiaries or branches. Medium enterprises have a larger scale than small enterprises, with net assets or annual turnover regulated by this law.
- d. Large Enterprises are business entities with net assets or annual turnover higher than medium enterprises. Large enterprises include national companies, state-owned enterprises (BUMN), joint ventures, and foreign businesses operating in Indonesia, which significantly contribute to economic growth.
- e. The Business World in Indonesia encompasses all types of enterprises, from micro, small, and medium to large businesses operating domestically and playing a role in driving the national economy.

Understanding the diverse types of MSMEs in Indonesia provides valuable insight into the dynamic and multifaceted nature of the sector. These variations reflect the influence of Indonesia's cultural, economic, and regional diversity and the unique challenges and opportunities each type faces. To fully understand the current landscape and potential of MSMEs, it is essential to examine their historical development to deepen our understanding of their present significance for future growth.

METHODOLOGY

This literature review employs a qualitative approach to systematically analyze and synthesize existing scholarly works, historical documents, government reports, and other relevant sources. By specifically adopting a historical analysis framework to trace the evolution of MSMEs in Indonesia, this paper integrates a chronological review of significant milestones, transformative phases, and key challenges faced by MSMEs. The objective is to provide a comprehensive understanding of the transformative phases of Indonesia's MSMEs and the role of economic policies in shaping their development.

The relevant data for this review were collected from various sources, including Academic Journals, historical documents, government reports such as publications from the Ministry of Cooperatives and MSMEs and Statistics Indonesia (BPS), and industry reports from organizations like the Asian Development Bank (ADB).

As for the data analysis, the literature from various sources was categorized into transformative phases, including pre-Independence, post-Independence (Old Order), the New Order era, the Reformasi era, the Pandemic Era, and the

digital age. Themes such as crucial milestones, challenges, characteristics, and policy impacts were identified through a coding process.

RESEARCH RESULT AND DISCUSSION

Transformation Phases of MSMEs in Indonesia

1) *MSMEs in the Pre-Independence Era, Old Order, and New Order*

In the pre-independence era, MSMEs in Indonesia played an important role as providers of goods and services needed by the local community. The economic structure during the colonial period was dominated by the plantation, agriculture, and international trade sectors, which were more beneficial to the colonial powers. As a result, micro and small enterprises managed by the indigenous community were more directed towards meeting daily needs rather than expansion or larger economic goals. Various types of businesses, such as batik crafts, weaving, small-scale agriculture, traditional foods, and the production of simple agricultural tools, have become the mainstay of the local community. However, the development of MSMEs during this period was hindered by limited access to capital, education, and colonial economic policies that tended to be exploitative and did not support indigenous small businesses (Moertiono, 2023).

During the Old Order period (1945-1966), the newly independent government sought to undertake economic development to improve the welfare of the society experiencing poverty and underdevelopment. However, the unstable political situation and economic policies oriented towards the nationalization of foreign companies caused the MSME sector to receive less attention. At this time, the large enterprises nationalized by the government became the main focus. Small and micro enterprises are often neglected in economic policies, even though they are essential in absorbing the workforce and meeting the community's basic needs. In addition, the challenges faced by MSMEs are becoming greater due to limited access to capital, minimal entrepreneurship education, and an unstable economic condition post-independence (Arianto, 2020).

Only during the New Order era (1966-1998) did MSMEs begin to receive greater attention from the government, although they still needed to be fully prioritized. Under President Suharto's leadership, the New Order government began to focus on long-term economic development to enhance economic growth and political stability. In this context, the large industrial sector remains a top priority because it can drive faster economic growth. However, MSMEs continue to play a role in providing local goods and services and creating jobs for the community. At this time, the government has introduced several programs to support MSMEs, including the People's Business Credit (KUR), designed to provide financing access for small businesses that previously had difficulty obtaining loans from banks (Arianto, 2020).

In addition to KUR, the government also encourages the development of cooperatives as a form of joint business that can help MSME actors develop their businesses. This cooperative program aims to build economic independence at the community level and strengthen the position of MSMEs in facing economic competition. However, implementing collaborative programs and credit support

is still limited to certain sectors and has not covered all MSME actors in various regions. On the other hand, the development of MSMEs at this time is still constrained by strict regulations and bureaucracy that often hinder the progress of small businesses (Arianto, 2020).

Although the New Order government began to recognize the importance of SMEs in national economic stability, attention was still more focused on large companies that contributed more to exports and macroeconomic growth. Many SMEs struggle to scale up their businesses due to technological and resource limitations. Overall, the New Order era marked the beginning of the government's recognition of the importance of MSMEs, although the attention given needed to be more optimal. The government's initiatives during this period were the initial steps to build a policy foundation that would support the development of MSMEs, which would later be recognized as increasingly important in subsequent times (Arianto, 2020).

With a more stable economic condition, MSMEs (Micro, Small, and Medium Enterprises) began to show their potential as the backbone of the domestic economy, helping to absorb the workforce and maintain economic stability at the local level. This laid the foundation for developing more intensive MSME policies in the following periods, such as during the Reform Era and the digital era, when the role of MSMEs became increasingly important in the national economy.

2) *The Reform Era and Transformation of MSMEs Post-1998 Crisis*

Indonesia's 1997-1998 economic crisis significantly impacted major economic sectors, including large companies. Many large companies went bankrupt, while the MSME sector showed remarkable resilience. This can be explained by the business model of SMEs, which tends to be more flexible and oriented towards the local market's needs. SMEs have a more straightforward business structure, are more adaptable to changes, and can survive even in unstable economic conditions. They can utilize local resources and more quickly adjust to changes in consumer behaviour due to crises. Therefore, many SMEs continued to operate and even thrive during and after the crisis. At the same time, large companies that were more dependent on the global market and complex supply chains faced many bankruptcies (Ramadhani & Hana, 2024).

After the reform, marked by President Suharto's resignation in 1998, Indonesia entered a new period with a more democratic system of governance. One of the major impacts of the reform was the implementation of decentralization policies that granted greater autonomy to local governments. This policy allows MSMEs to develop more evenly across Indonesia, not just in major cities. With regional autonomy, local governments better understand local potential and can design policies and programs more aligned with local MSMEs' needs. This helps MSMEs access various local resources, such as raw materials, labour, and markets, which may have been difficult to reach previously (Indarwati et al., 2023).

In addition, the local government's attention to the development of MSMEs also creates a more conducive climate for the growth of micro, small, and medium enterprises in the region. The success of MSMEs in surviving the crisis

and post-reform decentralization policies is also supported by policies that are more favourable to this sector. The government has begun to realize that MSMEs have great potential to become the pillars of the national economy. Some emerging policies include providing easier access to credit for MSMEs through the People's Business Credit (KUR) program launched in 2007 or through support through entrepreneurship training and mentoring provided by various institutions. This ease of credit access helps MSMEs that previously struggled to obtain financing to develop their businesses. Additionally, entrepreneurship training programs enhance the skills of MSME actors in running their businesses more professionally and efficiently, as well as improving their understanding of financial management and marketing (Indarwati et al., 2023).

On the other hand, the MSME sector is increasingly recognized as one of the sectors capable of absorbing many workers. In the post-crisis context, many workers lost their jobs in the formal sector and shifted to the informal sector, primarily filled by MSMEs. SMEs have become a primary contributor to reducing Indonesia's unemployment rate. In addition, MSMEs also play an essential role in strengthening the local economy and increasing the competitiveness of domestic products. The government and various non-governmental organizations also support skills training, marketing, and outreach regarding the importance of good human resource management in micro and small enterprises (Indarwati et al., 2023).

The post-reform transformation of MSMEs marks a significant change in the role and contribution of this sector to the Indonesian economy. MSMEs function not only as a sector providing jobs and driving the local economy but also as a sector capable of surviving and thriving amidst economic crises. In the future, the MSME sector is increasingly expected to continue developing with the support of appropriate policies, the utilization of technology, and the enhancement of business actors' capacities to contribute more significantly to national economic development. The success of MSMEs post-crisis reflects the great potential of this sector in creating community welfare and maintaining the country's financial stability (Indarwati et al., 2023).

3) *MSMEs in the COVID-19 Era: Challenges and Innovations*

The COVID-19 pandemic has posed a significant challenge for MSMEs in Indonesia. The decrease in public mobility and social restrictions directly impacted the decline in MSME revenue, especially for sectors that rely on physical interactions, such as restaurants, retail stores, and services. To put it differently, with strict lockdown measures, disrupted supply chains, and declining consumer demand, many MSMEs faced reduced revenues and heightened closure risks. A survey by the Asian Development Bank (ADB) revealed that over 88% of MSMEs in Indonesia experienced a significant drop in sales, with many struggling to adapt to the sudden shift toward digital platforms (ADB, 2020). Furthermore, the pandemic exposed structural vulnerabilities within the sector, such as limited financial resilience and access to formal credit, which hindered their ability to weather the economic downturn (Kementerian Koperasi dan UKM, 2021). A study conducted by Sudarmiatin et al. (2023)

demonstrated that the Covid-19 pandemic has had a significant impact on the survival of MSMEs at the beginning of the Covid-19 pandemic, the sales turnover of retail and food and beverage SMEs decreased by 40%, but a few months later, these businesses began to recover and adapt to the changing circumstances.

In this context, the pandemic also spurred innovations and adaptations, such as the digitalization of MSMEs. Many MSMEs switched to e-commerce platforms, expanded their market reach through social media, and utilized digital payment systems. Various government programs, such as the Productive Assistance for Micro Enterprises (BPUM), help affected MSMEs to survive. Initiatives such as the "Bangga Buatan Indonesia" (Proudly Made in Indonesia) campaign, launched by the government, also played a crucial role in encouraging digitalization and promoting locally made products (Kementerian Koperasi dan UKM, 2021). This pandemic has accelerated the digital transformation of MSMEs and urged entrepreneurs to be more creative in responding to rapidly changing market demands (Pudyastuti & Saputra, 2021). Financial technology (fintech) solutions also provided MSMEs with new opportunities to access funding through peer-to-peer lending and crowdfunding platforms. These adaptations helped businesses survive during the pandemic and positioned them for future resilience in an increasingly digital economy.

4) The Development of MSMEs in the Digital Era: Opportunities and Challenges in the Technological Era

The development of digital technology in recent years has brought significant changes to how MSMEs in Indonesia operate and compete. The digital era offers substantial opportunities for MSMEs to expand their markets more effectively and efficiently. One concrete example of this opportunity is using social media such as Instagram, Facebook, and TikTok to market products directly to consumers. These platforms allow SMEs to reach a wider audience, including consumers outside their regions, even abroad. Through social media, MSME actors can introduce their products more creatively, such as through promotional videos, product usage tutorials, or stories about the origin of the products that can enhance their closeness with consumers (Azmi Fadhilah & Pratiwi, 2021).

In addition, e-commerce platforms such as Tokopedia, Bukalapak, Shopee, and Lazada have opened up opportunities for MSMEs to sell online. By registering on e-commerce platforms, MSMEs can expand their market and gain access to various features such as more secure payment systems, efficient logistics, and different digital marketing tools. E-commerce also provides convenience for consumers to compare prices and choose products more quickly, increasing the competitiveness of MSME products (Soetarto et al., 2024).

By accessing the digital market, MSMEs can compete with products from around the world, not limited to the local or national market. In addition, a presence in the digital world allows MSMEs to more efficiently utilize consumer data, conduct market analysis, and adjust their sales strategies based on emerging trends. However, despite the significant opportunities offered by the digital era, the challenges MSMEs face are also considerable. One of the main challenges is the need for more digital literacy among MSME actors. Many

MSME actors still need to understand how to use technology optimally, whether for marketing, inventory management, or customer service. The limited knowledge about the use of digital applications and business software hinders them from fully utilizing the potential offered by technology. Moreover, the low skills in digital marketing make it difficult for many MSME actors to adapt to the rapidly changing marketing trends in the online world. For example, many MSMEs still rarely implement marketing strategies such as Search Engine Optimization (SEO), management of paid advertisements on social media, and the use of big data for consumer analysis (Moertiono, 2023).

Limited access to technology also poses a significant barrier for some MSME actors, especially those in remote or rural areas. Although internet technology is now increasingly accessible, not all regions in Indonesia have adequate internet infrastructure. This causes a disparity between MSMEs in urban areas, which are more connected to the digital world, and those in rural areas that need help accessing advanced technology. This condition creates a gap in competitiveness between MSMEs in advanced areas and those in more remote regions. (Idayu et al., 2021) mention that many MSME actors still rely on simple technologies such as mobile phones to run their businesses, so they cannot fully utilize the potential of more advanced technologies, such as inventory management software or data analysis tools.

Another challenge that arises in the digital era is data security and privacy protection issues. Many MSME actors still need to fully understand the importance of protecting consumer personal data and secure online transactions. With the increase in digital transactions, the risk of data breaches and online fraud also grows. Therefore, MSMEs need to enhance their understanding and implementation of adequate data security policies to maintain consumer trust. The use of security systems such as data encryption, payment protection, and transparent privacy policies is significant for MSMEs to operate safely in the digital world (Ilyas, 2023).

Overall, the development of MSMEs in the digital era brings great opportunities and equally significant challenges. Therefore, the government, educational institutions, and related organizations need to provide greater support regarding digital entrepreneurship training, improving access to technology, and ensuring more equitable digital infrastructure across Indonesia. With the proper support, SMEs can leverage digital technology to grow faster, expand their markets, and enhance their competitiveness in the global market. (Hakam et al., 2023).

Implementation of Economic Policy for MSMEs in Indonesia

The government has issued several important regulations to support and protect MSMEs, including the 1945 Constitution, which serves as the primary legal foundation in Indonesia, particularly Article 5 paragraph (1), Article 20, Article 27 paragraph (2), and Article 33, which relate to the people's economy. In addition, there is Law No. 9 of 1995, which strengthens the role of MSMEs in the national economy, as well as the Decree of the People's Consultative Assembly of the Republic of Indonesia Number XVI/MPR-RI/1998, which emphasizes the

importance of MSMEs as an integral part of the people's economy with strategic potential to realize a more balanced and just economic structure (Moertiono, 2023).

Presidential Regulation No. 5 of 2007 was also introduced to support MSME financing through the Small Business Credit (KUK) program. Then, Law No. 20 of 2008 was enacted to regulate the empowerment of MSMEs in the Indonesian economy. In 2015, the government launched an economic policy package that included increased interest rate subsidies for People's Business Credit (KUR) in response to the slowdown in bank credit growth. (Moertiono, 2023).

In 2014, annual credit growth reached 16.65% but decreased to 10.4% in mid-2015. This condition also affected credit for SMEs, which only grew by 9.2% (year-on-year) by the end of June 2015. With this slowdown, the government is striving to boost economic growth, especially for MSMEs, by increasing KUR interest rate subsidies to accelerate credit distribution and maintain the competitiveness of MSMEs amid weakening economic challenges (Moertiono, 2023).

Since the era of independence, the Indonesian government has continuously sought to promote the growth of MSMEs through various policies. In the New Order era, attention began to be given to introducing affordable credit programs, such as Small Business Credit (KUK) and People's Business Credit (KUR), to help MSMEs access capital quickly. This program aims to reduce the dependence of MSMEs on informal financing sources with high interest rates.

In the Reformation era, regional autonomy policies increasingly opened opportunities for local governments to support local MSMEs more specifically (Yusrita et al., 2023). For example, the government launched the National Movement to Buy Local Products program to encourage the consumption of MSME products and enhance competitiveness (Baihaqi, 2023).

Government support became more tangible during the pandemic through direct assistance and digital training programs. The government provided Micro Business Productive Assistance (BPUM) and tax incentives to help affected MSMEs. Currently, government policies are increasingly focused on strengthening the digitalization of MSMEs through programs like the National Movement Proud of Made in Indonesia, which aims to encourage the consumption of local products. In addition, the government has also launched various training and mentoring programs to enhance the capacity of MSMEs to be more competitive in the global market. The continuously evolving policies indicate that the government views MSMEs as a strategic sector that must be constantly strengthened to maintain national economic stability (Pudyastuti & Saputra, 2021).

Furthermore, the government has also introduced various programs, such as MSMEs Go Digital, to encourage MSME actors to utilize technology in their business operations. This policy is accompanied by strengthening technological infrastructure to ensure more equitable digital access. These various programs are evidence of the government's commitment to enhancing the role of MSMEs as the backbone of Indonesia's adaptive and competitive economy (Hendri et al., 2022).

MSMEs in Indonesia play an essential role in the national economic system. The number of MSMEs is far greater than that of large-scale industries. It has the advantage of absorbing labour and accelerating the process of economic equality as part of development. Based on this strategic role, it is only fitting that MSMEs receive protection through laws and regulations that support their operational activities and development (Hendri et al., 2022).

CONCLUSIONS AND RECOMMENDATIONS

The development of MSMEs in Indonesia has gone through various stages, starting from the pre-independence era to the digital era. During the pre-independence era, MSMEs played an important role in meeting local needs, although colonial policies limited them. During the Old Order and the New Order, MSMEs received limited attention. However, policies such as People's Business Credit (KUR) began to be introduced in the New Order to support access to capital. The 1998 economic crisis became a turning point, where MSMEs demonstrated resilience and significant contributions in absorbing the workforce. The Reform Era and decentralization provided space for MSMEs to develop more evenly, accompanied by policies that support access to credit and entrepreneurship training. The COVID-19 pandemic accelerated digital transformation, although MSMEs face challenges such as low digital literacy. The digital era offers excellent opportunities, but challenges are primarily related to technology access and data security. In the future, MSMEs are expected to continue to grow with the support of technology and more inclusive policies.

Several suggestions and recommendations can be made to ensure the sustainable growth and resilience of MSMEs in Indonesia. First, the government and private sector should collaborate to enhance digital literacy among MSME actors through targeted training programs and accessible resources. Second, policies should focus on creating a supportive ecosystem for MSMEs by simplifying business licensing, providing tax incentives, and fostering innovation hubs that connect MSMEs with research institutions and larger enterprises.

ADVANCED RESEARCH

In examining the evolution of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, it is evident that these businesses have played a crucial role in the nation's economic landscape, yet their growth trajectory has been shaped by varying socio-political contexts. From the colonial era, where their potential was constrained by restrictive policies, to the post-independence periods marked by limited institutional support, MSMEs have faced systemic challenges that hindered their growth. The 1998 economic crisis, however, highlighted their resilience, particularly in terms of workforce absorption and sustaining local economies. The subsequent Reform Era and decentralization policies provided a more conducive environment for MSMEs, improving access to financing and fostering entrepreneurship through programs like the People's Business Credit (KUR). Nevertheless, despite the accelerated digital transformation during the COVID-19 pandemic, MSMEs continue to struggle with issues like low digital literacy, limited technological access, and concerns

over data security. As Indonesia moves into the digital era, there is a pressing need to build a more robust and inclusive ecosystem for MSMEs that includes policy reforms aimed at simplifying regulatory frameworks, offering tax incentives, and enhancing collaborations between small enterprises, research institutions, and larger corporations. Strengthening digital literacy through targeted training initiatives and leveraging technology to foster innovation hubs will be key to ensuring the long-term sustainability and competitiveness of MSMEs in the global digital economy.

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