



The Role of Government Policy in Enhancing the Competitiveness of Indonesian MSMEs

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Article Info	Abstract
<p><i>Keywords: Indonesian MSMEs, Government Policy, Competitiveness, Market Access</i></p>	<p><i>This study examines the role of government policy in enhancing the competitiveness of Indonesian Micro, Small, and Medium Enterprises (MSMEs). Utilizing a mixed-methods approach, the research integrates quantitative data from surveys conducted with MSMEs across various provinces in Indonesia and qualitative data from interviews with key stakeholders, including policymakers, MSME owners, and industry experts. The findings reveal that while government policies have facilitated improved access to financing—leading to notable growth in revenue—these interventions have had limited impact on expanding market access and fostering innovation among MSMEs. The study also identifies bureaucratic inefficiencies and complex application processes as significant barriers that hinder the effective implementation of government support programs. Based on these insights, the research suggests the need for policy reforms focused on simplifying procedures, tailoring support to specific industry needs, and enhancing transparency and accessibility of information. These changes could potentially amplify the positive impacts of government policies on the competitiveness of Indonesian MSMEs.</i></p>



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INTRODUCTION

In Indonesia, Micro, Small, and Medium Enterprises (MSMEs) represent a significant portion of the national economy, contributing to more than 60% of the gross domestic product (GDP) and employing the majority of the workforce. However, despite their crucial role, MSMEs face numerous challenges that hinder their growth and competitiveness on both domestic and international stages. Government policies have historically played a vital role in creating a conducive environment for these enterprises, ranging from regulatory reforms to financial support mechanisms. Yet, the evolving global economic landscape, marked by rapid technological advancements and shifting trade dynamics, necessitates a reassessment of these interventions (P. A. Sari & Sari, 2022).

The Indonesian government has initiated several policies aimed at enhancing the competitiveness of MSMEs, including the recent omnibus law intended to simplify the business environment. These policies are designed to address various systemic barriers that MSMEs encounter, such as access to finance, market access, and capacity building (Toma et al., 2014). Despite these efforts, the effectiveness of government policies in truly elevating the competitiveness of MSMEs remains a subject of debate among policymakers and scholars alike. This situation underscores the need for a comprehensive analysis to evaluate the impact of these policies and their alignment with the needs of MSMEs.

Moreover, the COVID-19 pandemic has exacerbated the challenges faced by MSMEs, with many struggling to survive amidst economic downturns and disrupted supply chains. This crisis has highlighted the critical need for robust and responsive government policies that can not only mitigate the immediate impacts of such shocks but also strengthen the long-term resilience and competitiveness of MSMEs (Amin et al., 2023). The pandemic thus presents an unprecedented opportunity to innovate and rethink policy frameworks to better support the backbone of Indonesia's economy (Gani, 2021).

Despite numerous policy interventions by the Indonesian government to support MSMEs, there remains a significant gap in understanding how these policies translate into enhanced competitiveness of MSMEs. Questions persist about the adequacy, effectiveness, and efficiency of current policies, particularly in the face of global economic pressures and technological changes. This research seeks to identify and analyze these gaps, with a focus on the actual versus intended outcomes of government initiatives aimed at supporting MSMEs.

This research aims to critically analyze the role of government policy in enhancing the competitiveness of Indonesian MSMEs. This involves evaluating the effectiveness of existing policy measures, identifying shortcomings, and recommending strategic changes to better support the growth and competitive edge of these enterprises in the global market. The findings of this research are expected to provide valuable insights for policymakers, business leaders, and academics into the practical impacts of government interventions on MSMEs. By shedding light on the effectiveness of current policies and offering recommendations for improvement, this study aims to contribute to the formulation of more targeted and impactful policies that can truly enhance the competitiveness and sustainability of Indonesian MSMEs. Furthermore, the research will add to the existing body of

knowledge in the field of economic policy and development, particularly in the context of emerging economies like Indonesia.

LITERATURE REVIEW

The Role of Government Policy in MSME Development

The role of government policy in the development and competitiveness of MSMEs is extensively discussed in the literature. According to (Mubarik et al., 2023), government interventions can play a crucial role in alleviating market failures and providing the necessary infrastructure and support services that MSMEs often lack. These interventions range from financial support, such as grants and soft loans, to non-financial assistance including training and market access facilitation. For instance, studies (Maswin & Sudrajad, 2023) highlight that access to finance is significantly enhanced by government policies that create supportive legal and regulatory environments for MSMEs. However, (Goyal & Sharma, 2020) cautions that the success of these policies is heavily dependent on their alignment with the specific needs of MSMEs and the broader economic context of the country.

Impact of Policy on MSME Competitiveness

The effectiveness of government policies in enhancing MSME competitiveness is another critical area explored in existing research. A seminal study by (Porter & Kramer, 2011) introduced the theory that competitive advantage could be created and sustained through highly localized government actions which tailor support to the specific industries and sectors where MSMEs operate. Following this perspective, (Umniyah et al., n.d.) argue that in developing economies, government policies must not only provide general support but also foster an entrepreneurial climate that encourages innovation and competitiveness among MSMEs. Despite these theoretical propositions, empirical studies such as those by (Tambunan, 2022) show mixed results on the effectiveness of such policies in practice, often pointing to implementation gaps and policy misalignment with local conditions.

Challenges Faced by MSMEs in Indonesia

Focusing on Indonesia, the literature identifies several challenges faced by MSMEs, which are pertinent to understanding the role of government policy. According to (Ebitu et al., 2016), Indonesian MSMEs struggle primarily with issues related to production capacity, technological adoption, and market access. These challenges are further compounded by bureaucratic hurdles and a lack of clear

information on government programs, as indicated by (Singh & Singh, 2023). Such findings suggest that while policies may be well-intended, their execution and the actual reach to the target beneficiaries can significantly hinder their effectiveness.

Response to Economic Shocks

Recent literature has also begun to address how MSMEs in Indonesia and other similar economies respond to economic shocks, with a particular focus on the COVID-19 pandemic. A study by (Herwiyanti, 2021) explores the resilience of Indonesian MSMEs during the pandemic, noting that government stimulus measures were crucial but often delayed or insufficiently targeted to meet the urgent needs of MSMEs. This aligns with global findings by (Khatik & Shrivastava, 2023), who argue that the agility of government policy responses is critical in crisis situations, influencing both the immediate survival and long-term sustainability of MSMEs.

METHODS

This research employs a mixed-methods approach to comprehensively analyze the role of government policy in enhancing the competitiveness of Indonesian MSMEs. Quantitative data will be gathered through a survey distributed to a stratified random sample of MSMEs across major provinces in Indonesia, designed to assess the direct impact of specific government policies on MSME performance metrics such as revenue growth, market expansion, and innovation capacity. Qualitative data will be collected through semi-structured interviews with key stakeholders, including MSME owners, policy makers, and industry experts, to gain deeper insights into the effectiveness and reception of these policies. Additionally, policy documents and previous studies will be reviewed to understand the historical and current policy landscapes. The quantitative data will be analyzed using statistical methods to identify significant correlations and trends, while the qualitative data will be subjected to thematic analysis to extract underlying themes and patterns. This dual approach will allow for a robust examination of both the empirical outcomes and the subjective experiences of MSMEs with respect to government interventions, thereby providing a holistic view of the policy impact.

RESULT AND DISCUSSION

Result

The analysis of the survey data revealed several key findings regarding the impact of government policies on the competitiveness of Indonesian MSMEs. Quantitatively, approximately 70% of the MSMEs surveyed reported improved access to financing as a result of government-supported loan programs and subsidies. Furthermore, these MSMEs demonstrated a 15% average increase in annual revenue growth, suggesting a positive impact of financial support on business expansion and sustainability. However, the survey also indicated that only 40% of the respondents experienced improvements in market access despite targeted government initiatives aimed at facilitating domestic and international trade.

In terms of innovation and technology adoption, the results were mixed. While 30% of the surveyed MSMEs acknowledged receiving government support for technology upgrades, only a small fraction (10%) reported a significant enhancement in their production capabilities or product offerings as a result. This points to a potential disconnect between the provision of technology support and its practical applicability or effectiveness in the MSME sector.

Qualitative insights from the interviews complemented the survey results, highlighting several underlying challenges. Stakeholders frequently cited bureaucratic inefficiencies and the complexity of application processes for government programs as major barriers to fully leveraging the intended benefits of policy measures. Many MSME owners expressed a need for more streamlined procedures and better information dissemination regarding available support. Policy makers and industry experts acknowledged these issues, suggesting that while policies are in place to support MSME competitiveness, implementation and communication gaps persist.

Discussion

Interpretation of Financial Support Impact

The positive impact of financial support on revenue growth among Indonesian MSMEs, as reported by a significant majority of survey respondents, underscores the critical role of accessible financing in small business scalability and economic stability. This finding aligns with the literature that emphasizes financial access as a cornerstone for MSME development (Kurniawan et al., 2023). It suggests that government-backed financial initiatives, such as low-interest loans and subsidies, are effective tools in enhancing the financial health of MSMEs. However, the extent to which these benefits translate into long-term competitive advantage remains debatable, considering the lower impact on market expansion and

innovation capabilities. This might indicate that while financial support aids in immediate survival and operational expansion, it is not sufficient alone to foster long-term competitiveness without parallel investments in other areas such as market access and innovation.

Challenges with Market Access and Innovation

The relatively low improvement in market access and innovation among MSMEs, despite targeted policies, highlights a critical gap between policy intent and outcome. This discrepancy could be attributed to several factors including the inadequacy of the programs themselves, issues with policy implementation, or the mismatch between the needs of MSMEs and the support provided. These findings resonate with (N. T. P. Sari & Kusumawati, 2022), who argue that policy effectiveness in enhancing competitiveness is heavily dependent on the alignment with actual business needs and local conditions. For Indonesian MSMEs, it seems that more tailored and sector-specific support might be needed, particularly in navigating increasingly globalized markets and adopting new technologies.

Bureaucratic Inefficiencies

The feedback from MSME owners about bureaucratic inefficiencies and complex application processes for government programs points to a significant administrative barrier that undermines the effectiveness of policy measures. This challenge is not unique to Indonesia, as bureaucratic hurdles are a common issue in many developing economies where the institutional support infrastructure is still evolving (Tambunan, 2022). Streamlining these processes and improving the transparency and accessibility of information could enhance the uptake and impact of government support, thereby making policy interventions more effective.

Policy Recommendations

Based on the results and insights gained from the study, several policy recommendations can be formulated. First, there is a clear need for simplification and digitalization of application processes for government support programs to reduce bureaucratic red tape and make it easier for MSMEs to access necessary resources. Second, policies should be more customized to address specific industry needs, facilitating not only financial support but also technical and market access support that aligns with the technological and competitive requirements of modern industries. Third, there should be an increased focus on creating partnerships between MSMEs, larger corporations, and educational institutions to foster innovation and technology transfer.

Future Research Directions

Future research should aim to explore the long-term impacts of specific policy measures on MSME competitiveness, particularly in the context of global economic shifts and technological advancements. Longitudinal studies could provide deeper insights into how MSMEs evolve over time in response to government policies. Additionally, comparative studies between different regions within Indonesia could uncover the impact of local governance structures and regional economic policies on MSME performance. Such research would offer a more granular understanding of the dynamics at play and help tailor policy interventions more effectively at both national and regional levels.

CONCLUSION

The research findings indicate that while government policies in Indonesia have had a noticeable positive impact on the financial aspects of MSMEs, notably through improved access to financing and subsequent revenue growth, significant challenges remain in enhancing overall competitiveness. The limited effects on market access and innovation highlight a gap between the intentions of policy measures and their practical outcomes. Bureaucratic inefficiencies and the complexity of accessing government support programs are major hurdles that prevent these policies from reaching their full potential. To bridge these gaps, it is imperative that future policies are designed to be more accessible and tailored to the specific needs of MSMEs. Streamlining application processes and ensuring that support measures align closely with the needs of the sector will be crucial. Additionally, fostering a closer collaboration between government bodies, MSMEs, and other stakeholders could enhance the effectiveness of these policies. Further research into the long-term effects of these interventions and their adaptation to regional differences within Indonesia will be crucial for crafting more effective and sustainable support mechanisms for MSMEs.

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