

## THE ROLE OF GOVERNMENT IN EMPOWERING UMKM: A LITERATURE REVIEW

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### Abstract

The role of government in MSME empowerment is the actions and policies taken by public authorities to support the development and sustainability of Micro, Small, and Medium Enterprises. This includes providing access to capital, fiscal incentives, supportive regulations, infrastructure development, as well as training and business support programmes, with the aim of increasing the competitiveness and contribution of MSMEs to the national economy. The study in this research uses the literature method. The results show that the government serves as the main facilitator in creating an enabling environment for MSME growth through appropriate fiscal and regulatory policies. This includes providing access to capital, fiscal incentives, and simpler regulations, as well as developing physical and digital infrastructure. In addition, the government also plays a role in improving the capacity and competence of MSME businesses through training programmes, business consultations, and market access facilitation. In conclusion, with active support and synergy from the government and related stakeholders, an ecosystem that supports the development of MSMEs can be created, which in turn encourages national economic growth and community welfare.

**Keywords:** Role, Government, MSME Empowerment.

### Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the national economy of many countries, including Indonesia, where they are a category of businesses distinguished by the number of workers, asset value, and annual turnover. Micro enterprises typically have a workforce of less than 10 people with a maximum turnover of around Rp300 million per year. Small businesses have a workforce of between 10 and 50 people, with an asset value and annual turnover greater than micro businesses but not more than IDR 2.5 billion and IDR 2.5 billion respectively. (Fadilah et al., 2022).. Meanwhile, medium-sized enterprises have a workforce of between 51 and 200 people with an asset value of up to IDR10 billion and a maximum turnover of IDR50 billion per year. MSMEs play an important role in the economy, especially in job creation and income distribution at the local level. This classification is used to develop appropriate policies and programmes for the development and empowerment of MSMEs. (Diapepin et al., 2024)..

MSMEs have become the backbone of the economy with their contribution to Gross Domestic Product (GDP), job creation, and economic equity. According to data from the Ministry of Cooperatives and SMEs, as many as 99% of the total business units in Indonesia are MSMEs, which absorb more than 97% of the workforce and contribute more than 60% to GDP.

With a business population that reaches 99% of the total business units in Indonesia, MSMEs are the main drivers of economic growth, income equality, and poverty reduction. They operate in various sectors, ranging from trade, manufacturing, to services, thus contributing widely and significantly to various aspects of the economy. (Atmojo et al., 2023)..

However, the strategic role of MSMEs cannot be separated from the various challenges they face, such as limited access to capital, low levels of technology adoption, inadequate managerial skills, and limited market access. To overcome these problems, comprehensive support and intervention from the government is needed through supportive policies, empowerment programmes, and adequate facilities. With continued support, MSMEs can be more competitive, develop their businesses, and continue to make optimal contributions to the national economy, while strengthening Indonesia's sustainable and inclusive economic structure. This has caused many MSMEs to experience difficulties in increasing the scale of their business and competing in wider markets, both domestic and international. (Desmawan, 2023).

The government plays a crucial role in supporting and empowering MSMEs to overcome these challenges. Through various policies, programmes and initiatives, the government seeks to create an environment conducive to the growth and development of MSMEs. Some forms of government intervention may include access to finance, training and capacity building, provision of market information, and infrastructure and technology development. (Lin et al., 2022).

The literature review examines the role of government in empowering MSMEs. By reviewing previous studies and reports, this research intends to assess the effectiveness of various government initiatives and programmes, and reveal challenges and opportunities that can be optimised. The results of this study are expected to provide deeper insights for policy makers to improve MSME empowerment programmes in the future.

## **Research Methods**

The study in this research uses the literature method. Literature research method is an approach used to collect, review, and analyse relevant information from various published sources, such as books, journals, scientific articles, research reports, and other documents. The purpose of this method is to understand and summarise existing knowledge, identify gaps in the literature, and provide a strong theoretical basis for further research. Through the literature research method, researchers can examine the methods, results, and conclusions of previous studies to build arguments in favour of or against a particular hypothesis. This process involves systematic stages, ranging from literature search, selection and organisation of sources, critical evaluation, to synthesis of relevant findings, so as to create a comprehensive and in-depth insight into the topic under study. (Setiowati, 2016); (Syahrani, 2020); (Helaluddin, 2019).

## **Results and Discussion**

### **Government's Role in MSME Empowerment**

Micro, Small, and Medium Enterprises (MSMEs) are business sectors that play a vital role in the economies of many countries, including Indonesia. MSMEs are defined based on certain criteria, namely the number of workers, asset value, and annual revenue. Micro

enterprises usually have characteristics such as a workforce of under 10 people and a maximum annual turnover of around Rp300 million. On the other hand, small businesses involve 10 to 50 workers with assets of up to Rp500 million and annual turnover of up to Rp2.5 billion. Medium-sized enterprises, the largest category within MSMEs, employ between 51 to 200 people, with an asset value of up to IDR10 billion and a total turnover that can reach IDR50 billion per year. These criteria may vary depending on the regulations in each country (Najmudin et al., 2021)..

Characteristics of MSMEs include operational flexibility, high adaptability to market changes, and limited resources compared to large enterprises. This flexibility allows MSMEs to quickly adapt to consumer needs and dynamic market trends. However, challenges faced by MSMEs often include limited access to funding, technology, and wider marketing networks. On the other hand, MSMEs are often the mainstay of local job creation and contribute significantly to income distribution. Their important role in local economic growth has made MSMEs one of the main focuses of sustainable economic development policies. (Estherina, 2021).

The government's role in empowering Micro, Small and Medium Enterprises (MSMEs) is crucial and involves various aspects ranging from regulation to financial and non-financial support. The government plays the role of a regulator that creates a conducive business environment for MSMEs. This includes simplifying the licensing process, reducing red tape, legal protection, as well as providing tax incentives for small and medium enterprises. These measures aim to reduce the barriers often faced by MSMEs in running and developing their businesses. (Muhammad et al., 2024).

Another important aspect is financial support, where the government can provide easier access to funding sources. Through various programmes, such as the low-interest Kredit Usaha Rakyat (KUR), the government enables MSMEs to obtain the capital they need without too much burden. In addition, the government also works with banks and other financial institutions to provide various financial products that suit the needs of MSMEs. These include unsecured loans, grants, and other support programmes designed to strengthen the financial capacity of MSMEs. (Rizki & Hendarman, 2024)..

In addition to financial support, the government also plays a major role in providing training and technical guidance to MSME players. These training programmes cover various aspects, ranging from business management, digital marketing, information technology, to improving the quality of products and services. This capacity building aims to help MSMEs compete better in the global market. The government also often establishes business service centres or business incubation centres that provide facilities, mentors, and networking that MSMEs desperately need to grow and develop. (Afandi et al., 2023)..

The government also facilitates market access for MSMEs through various initiatives such as trade fairs, international trade missions, and the use of digital platforms. These programmes help MSMEs to promote their products not only in the local market but also in the international market. Thus, the ability of MSMEs to scale up and penetrate the global market becomes more evident. In this case, the government acts as a mediator that connects MSMEs with other stakeholders such as investors, distributors, and buyers from abroad, thus

opening up wider opportunities for MSMEs' superior products to be recognised in the global arena. (Indahsari et al., 2024)..

In addition to the measures already mentioned, the government is also implementing policies that support innovation and digitalisation of MSMEs. In the digital era, technology adoption is key to business success and sustainability. Through various initiatives such as e-commerce training, providing affordable technology infrastructure, and supporting internet access in remote areas, the government ensures that MSMEs can utilise technology to improve their operational efficiency and competitiveness. In addition, the government also encourages collaboration between MSMEs and the private sector and research institutions to develop innovative new products and services. (Noor & Sriyono, 2024).

The government's role in empowering MSMEs also includes efforts to create strategic partnerships between MSMEs and large companies. These partnerships can be in the form of production partnership programmes, supply chains, or even technology transfer. By establishing such partnerships, MSMEs get the opportunity to learn and adapt to higher operational and quality standards, which in turn can improve their competitiveness. In addition, these partnerships also open up opportunities for access to a wider market through the distribution networks of larger companies. (Ilham, 2023).

Government support is also realised in the form of promotion and branding of MSME products. The government often organises promotional campaigns that highlight local products with superior quality, both at the national and international levels. Through various activities such as festivals, exhibitions, and media campaigns, the government endeavours to increase public awareness and demand for MSME products. These initiatives not only help MSMEs in increasing sales but also in building a stronger brand image and fostering a sense of pride for local products among consumers. (Saiful et al., 2023)..

Overall, the government's role in empowering MSMEs is comprehensive and multidimensional. From supportive regulations, access to finance, training and capacity building, to the initiation of strategic partnerships and product promotion, all these aspects are designed to create an ecosystem conducive to the growth and sustainability of MSMEs. Thus, this holistic government support is crucial to ensure that MSMEs can grow, thrive, and take a more significant role in the national and global economy. MSME empowerment is not just about capital and technology, but also creating sustainable opportunities for innovation, collaboration and growth.

### **Effectiveness of Government Programmes and Policies on MSME Empowerment**

The effectiveness of government programmes and policies in empowering MSMEs is highly dependent on consistent and targeted implementation. The government has designed various programmes that aim to provide easier access to financing for MSMEs, such as Kredit Usaha Rakyat (KUR) which offers low interest rates and more flexible terms. This policy has proven to help MSMEs that previously found it difficult to obtain capital due to limited assets to pledge as collateral. This increased access to credit allows MSMEs to expand and increase their production capacity. (Widiyanto et al., 2022)..

In addition to financial support, the effectiveness of training and capacity building programmes also plays an important role in empowering MSMEs. The government through

various ministries and agencies has organised training programmes related to business management, digital marketing, and financial management. This training equips MSME players with the skills and knowledge needed to face increasingly fierce market competition, especially in the digital era. Business incubation programmes that provide intensive mentoring over a certain period also help MSMEs to improve their business models and ensure business sustainability. (Budilaksono et al., 2022)..

Then, the success of policies to create a conducive business ecosystem is also very influential. The government is aggressively running various programmes to simplify business licensing through the OSS (Online Single Submission) system that simplifies the business registration and licensing process. With policies that reduce bureaucracy and speed up business licences, MSMEs can focus more on developing their products and services. In addition, the government's efforts to improve infrastructure, such as faster and more affordable internet in various regions, is also an important supporting factor for MSMEs to grow. (Agustina & Yunita, 2024).

Finally, government support in marketing and branding has also shown positive results. Through various promotional programmes at home and abroad, MSME products are becoming more widely known and gaining a place in the larger market. For example, organising local product exhibitions, marketing campaigns through social media, and cooperation with major e-commerce platforms help MSMEs to increase their visibility and reach more consumers. Still, to maintain long-term effectiveness, regular evaluations and policy adjustments must be made, so that these programmes can continue to be relevant and truly address the needs of dynamic MSME players.

### **Supporting and inhibiting factors for MSME empowerment**

The empowerment of MSMEs is influenced by various supporting factors that determine the success and progress of these small businesses. One of the key factors is access to adequate capital. Government programmes such as Kredit Usaha Rakyat (KUR) have been an important support, giving MSMEs easier access to funding at affordable interest rates. The existence of microfinance institutions is also important in providing flexible financing for small and medium-scale enterprises. In addition to access to capital, advances in technology and digitalisation offer great opportunities for MSMEs to improve operational efficiency, expand market reach, and engage with customers more effectively. (Sari et al., 2023).

Adequate infrastructure also plays a significant role as a supporting factor for MSME empowerment. The availability of physical and digital infrastructure, such as roads, reliable internet networks, and efficient logistics centres, makes it easier for MSMEs to obtain raw materials, distribute products, and manage their businesses. Good infrastructure also supports MSMEs in accessing wider markets, both local and international. In addition, community support, such as MSME associations or partnerships with large companies, gives small businesses access to mentorship, training, and experience sharing with more experienced entrepreneurs. (Rizki & Hendarman, 2024)..

However, the empowerment of MSMEs cannot be separated from various inhibiting factors that must be overcome to encourage their growth. One of the main challenges is the low level of education and skills among MSME players. Lack of knowledge in business

management, technology utilisation, and marketing strategies means that many MSMEs struggle to compete in an increasingly competitive market. In addition, the lack of support in the form of conducive regulations is also an obstacle. Complicated bureaucracy and inconsistent regulations often burden MSMEs and hamper their flexibility and innovation. (Ariani1, 2024).

Another inhibiting factor is limited market networks and business relationships. Many MSMEs are still dependent on local markets and tend to find it difficult to penetrate wider markets due to lack of access to information and distribution networks. On the other hand, fierce competition with global products requires MSMEs to continuously innovate to improve the quality and bargaining power of their products. Support in the form of increased production capacity and access to the latest technology is needed to overcome this obstacle. Building co-operation and collaboration with various parties, including the government, private sector, and NGOs, is an important key to facing these challenges and encouraging sustainable empowerment of MSMEs. (Setyawati et al., 2023).

Strategic steps to overcome inhibiting factors and strengthen supporting factors for MSME empowerment are needed. First, there is a need to increase the capacity and competence of MSME actors through training and education that focuses on business management, the use of digital technology, and marketing strategies. Providing opportunities to learn from best practices and mentoring by successful entrepreneurs will go a long way in improving the adaptability and competitiveness of MSMEs. In addition, more flexible and conducive regulations should be introduced to support the growth of MSMEs without compromising product quality and safety. (Rarasati & Priyadi, 2024)..

Strengthening networks and market access is also a priority. The government and relevant stakeholders need to provide a platform or ecosystem that allows MSMEs to meet potential buyers and business partners. This can be done through trade fairs, online marketplaces, and MSME festivals. Adequate infrastructure support, such as fast internet and efficient logistics facilities, is crucial to help MSMEs reach a wider range of customers, both domestically and abroad. In addition, strategic partnerships with large companies or multinational corporations can open up greater opportunities for MSMEs to engage in higher value chains. (Jaman, 2024).

A collaborative approach between the government, private sector, academia, and non-governmental organisations is an important cornerstone in empowering MSMEs. By working together, they can create an ecosystem that supports the growth of MSMEs, from the provision of capital, skills training, to product marketing. For example, the banking sector can provide more friendly and affordable financing schemes for MSMEs, while academics can assist in research and development of innovative products. Non-governmental organisations can play a role in social empowerment and global partnership networks. (Fitriah et al., 2024)..

Thus, empowering MSMEs requires a holistic approach that involves various roles and contributions from all relevant parties. Access to adequate capital, good infrastructure, capacity and competency building, and conducive regulatory support are key in supporting the development of MSMEs. Meanwhile, challenges such as low education and skills, burdensome bureaucracy, and limited market networks must be faced with measurable and collaborative

strategies. With good synergy between all parties, MSMEs can grow and develop sustainably, making a significant contribution to the national economy and community welfare.

## Conclusion

The role of government in empowering MSMEs is crucial and multifaceted. Based on the literature review, the government has the primary responsibility in creating a conducive environment for the growth of MSMEs through various fiscal and regulatory policies. Some important steps that can be taken by the government include providing easier and more affordable access to capital, providing fiscal incentives, as well as establishing more flexible regulations and simplifying the licensing process. In addition, the government should also focus on improving physical and digital infrastructure that enables MSMEs to operate and compete effectively in domestic and international markets.

On the other hand, empowering MSMEs also requires attention to the aspect of increasing the capacity and competence of business actors. The government needs to develop comprehensive training and education programmes, covering business management, digital technology, and product and service innovation. In addition, support mechanisms such as business consultations, facilitation of exhibitions and market access, as well as the provision of online platforms for promotion and sales are crucial in helping MSMEs improve their competitiveness. With the active role and strong synergy of the government and related stakeholders, an ecosystem that supports the development of MSMEs can be created, which in turn will have an impact on improving the national economy and the welfare of society as a whole.

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