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Digital Micro, Small and Medium Enterprises

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Abstract: MSMEs (Micro, Small and Medium Enterprises) in Indonesia have a vital role in developing the community's economy. However, there are challenges for MSMEs to survive amid competition. A multi-aspect strategy is needed for MSMEs to rise and restore stability, especially due to the Pandemic Covid-19. This study uses a qualitative descriptive analysis approach. Based on the results of the analysis carried out, it is explained that digitalization is something that cannot be avoided anymore. The government is providing various supports through the Ministry of Communication and Informatics, the Ministry of Trade, the Ministry of Cooperatives and Small and Medium Enterprises and several BUMNs for the development of MSMEs in a digital direction. Real government support for MSMEs through the PaDi UMKM platform, helps MSMEs get business legality, advertise online and join Bekraf, e-commerce and other startups to gain access to marketing with a wider reach.

Keywords: *digitalization; msme; msme assistance; government*

A. INTRODUCTION

MSMEs (Micro, Small and Medium Enterprises) in Indonesia play an important role in developing the people's economy. However, MSMEs have challenges to survive in the midst of competition. The burden on MSMEs is getting heavier due to the COVID-19 pandemic. A survey by katadata.co.id reported that 82.9% of MSMEs were negatively affected by the Covid-19 pandemic. The impact experienced by MSMEs was quite severe, starting from a decrease in turnover to having to reduce employees.

In order to maintain the business, various methods are used by MSMEs. One of

them is by digitizing, namely transitioning MSMEs to the digital era because digital transformation is a necessity. The rapid development of technology has driven a shift in buying and selling activities from face-to-face to online (online). Therefore, the government continues to try to encourage MSME actors to enter the digital ecosystem. MSMEs are expected not only to move buying and selling activities, but also to be able to upgrade due to the expanding market reach and the increasing value of trade transactions.

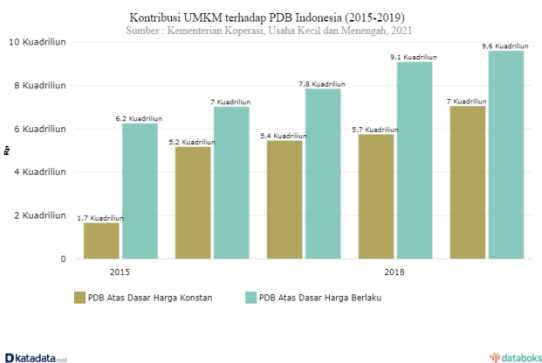
Based on March 2021 data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM), the number of MSMEs in the country has



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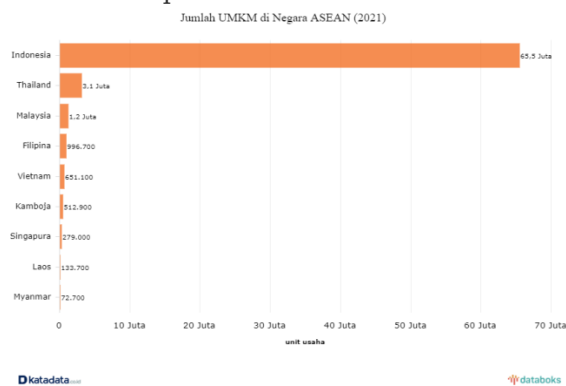
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reached 64.2 million with a contribution to the Gross Domestic Product (GDP) of 61.07 percent or Rp. 8,573.89 trillion and recorded able to absorb 97% [of the workforce](#). In line with the data source from katadata.co.id as follows,



(Source:<https://databoks.katadata.co.id/>)

Data from katadata.co.id also states that the proportion of Indonesian MSME workforce absorption is the largest in ASEAN. In neighboring countries, MSMEs only absorb labor in the range of 35% -85%. However, if seen from its performance, Indonesia is still lagging behind other countries where MSMEs are able to contribute up to 69.3% of local GDP.



(Source:<https://databoks.katadata.co.id/>)

The Indonesian government through the Minister of Cooperatives and Small and Medium Enterprises (UKM), Teten Masduki, in the G20 Indonesia side event titled Digital Economy to Support SDGs, is targeting as

many as 30 million MSMEs to enter the digital ecosystem in 2024. According to the Ministry of Cooperatives and SMEs, 83% of the perpetrators National MSMEs depend on digitalization. Of that figure, 73% of them already have accounts at market locations (e-commerce) and as many as 82% have marketed their products digitally. Meanwhile, as of June 2022, the number of MSMEs that have entered the digital ecosystem has reached 19.5 million business actors, or 30.4% of the total MSMEs which have recorded around 64 million business actors. So that the digitization of MSMEs is crucial for MSMEs. This is in line with the Katadata report which states that 29.1% of MSMEs are exploring digital marketing channels during the pandemic. In fact, 8 out of 10 MSME businessmen say that using digital platforms has helped them run their business.

Based on the results of the CORE survey, as many as 70% of MSMEs experienced an average income increase of 30% by joining the digital ecosystem. According to the MSME Business Activity Survey conducted by Bank BRI, the MSME business index has increased where in the second quarter of 2022 it reached 109.4 and shows that MSME players are at an optimistic level.

The ability to master digital and internet devices is an absolute thing that must be mastered by MSMEs if they want to survive in competition (Purwana, Rahmi, & Aditya, 2017). Digitizing MSMEs is not easy to realize. There are so many obstacles that must be overcome that arise from various sources. One of them, before the pandemic, many goods and services consumption techniques were carried out offline. Meanwhile, during a pandemic and after a pandemic, the way to consume goods and services is mostly done online through e-commerce. This reality becomes a reference that the way people consume has really changed. Seeing this fact raises various

problems. One of them is internet access for remote areas and consumer human resources (HR), as well as the MSMEs themselves. Based on the background above, this study aims to analyze the digitization of MSMEs in Indonesia.

B. MATERIALS AND METHOD

The method in this research uses descriptive qualitative research. Researchers compile and describe the development of Indonesian MSMEs, as well as several empirical studies on the digitalization of MSMEs. Data collection techniques using documentation techniques, namely the authors collect data from various reference sources. In addition, due to time and material limitations related to this research, the authors used literature studies and research articles from journals and online news, which aims to make conclusions and evaluation of the problems that the author examines.

MSMEs

UMKM is a productive business owned by individuals or business entities that have met the criteria as a micro business. Rudjito (2018) explained that MSME is a business that has an important role in the Indonesian economy, both in terms of the jobs created and in terms of the number of businesses. Putra, (2016) said, MSMEs have an important role, namely (1) as the main actor in economic activity, (2) the largest contributor to employment, (3) local economic development and community empowerment, (4) creating new innovations, and (5) contributors in maintaining the balance of payments through export activities.

The development and growth of MSMEs is quite good from year to year. The government is seriously paying special attention to the MSME sector by carrying out various empowerments. The reason is that MSMEs are the backbone of labor supply,

because large companies emphasize the use of technology rather than labour. MSMEs also contribute to the formation of Gross Domestic Product (GDP).

Based on the Government Regulation of the Republic of Indonesia Number 7 of 2021 regarding the Development, Protection and Empowerment of Cooperatives and Micro, Small and Medium Enterprises, it can be said that the implementation of the MSME Digitalization program is a way of economic recovery, in this case mainly due to the COVID-19 pandemic, the implementation of which was handed over to every local government according to their needs. This is in line with the government's goal of prioritizing the MSME sector in national economic recovery. The government wants to take advantage of the digital era to enable business actors to adapt to technological changes through programs that guide MSMEs.

MSME digitization

Digitalization of MSMEs is the utilization of market intelligence results for product development which can have an impact on the growth of MSMEs in the field of technology (Wijoyo, 2020). The Covid-19 pandemic period minimized people from having direct contact with one another. The importance of the role of technology is able to change the habits and behavior of everyday people and for the business world.

Digitizing MSMEs is not just using technology to sell products. More than that, digitizing MSMEs allows MSMEs to manage finances, monitor business *cash flow*, and obtain raw materials *online*. In addition, digitization also has a more significant role in increasing the capacity of MSME businesses, both in terms of licensing, network access, promotion, and market access to create superior MSMEs. That way, digitization plays an important role for the running of the MSME business process as a whole.

C. RESULT AND DISCUSSIONS

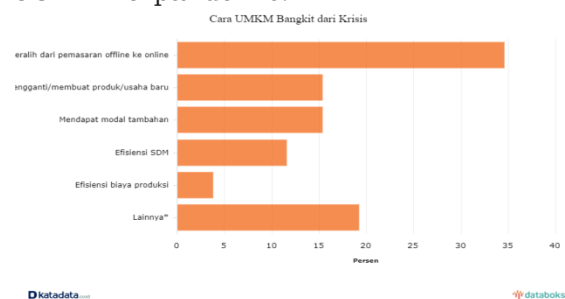
This Challenges of MSMEs in Indonesia Referring to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs) that MSMEs are business activities that can expand employment opportunities and provide broad economic services to the community, and can play a role in the process of equity and income improvement society, encourage economic growth, and play a role in achieving national stability. Even though in the national economy MSMEs have shown their role, they are still facing various problems both internally and externally, especially after the COVID-19 pandemic, MSMEs in Indonesia are facing extraordinary challenges because of the problems they continue to cause in various sectors of life. Even though the economic development of a country basically aims to achieve people's welfare through high economic growth and income distribution (Hanoatubun, 2020).

The use of digital technology does not only offer great opportunities and benefits for its users. But also as a challenge in all areas of life to improve quality and efficiency, in the field of marketing communications. Individual awareness of the existence of technology is important in the process of spreading innovation in this field. In the economic sector, especially for MSMEs, they can interact and transact without space and time limits. That means, the presence of digital technology developments allows SMEs to market their products online.

One thing that can be done by MSMEs to influence the success of a product in penetrating the market is by taking advantage of consumers in the current digital era who are active in seeking information about a product. It is not easy for SMEs to face this challenge. MSMEs must be able to plan how to use digital marketing communication techniques as a competitive marketing tool and make

communication a determining factor. MSMEs are required to be able to keep up with the changes in today's digital era. MSMEs need to learn how to use marketing communication techniques by taking advantage of digital developments. In addition, the use of information and communication technology (ICT) must also be sought to increase the competency of MSME actors. For example by managing positive communication between consumers and sellers.

A survey of MSMEs said that 34.6% of respondents said they had switched from an *offline* to *online marketing system* . Meanwhile, 15.4% chose to replace and create new products or businesses, as well as receive additional capital due to the COVID-19 pandemic.



(Source:<https://databoks.katadata.co.id/>)

Various supports from the government for MSMEs, one of which the government seeks to optimize the potential and productivity of MSMEs in order to accelerate the national economic recovery which is dominated by MSMEs by encouraging digitization or onboarding for offline MSMEs and providing various stimuli for MSMEs that have been digitized. The government initiated the Proudly Made in Indonesia National Movement, in which millions of MSMEs have been on board various e-commerce platforms and given stimuli such as coaching, promotions, lending from the State-Owned Bank Association (Himbara), as well as placement in government procurement e-catalogs. Regarding the development of Human Resources (HR)

competencies, in May 2021, the President also launched the National Digital Literacy Program "Indonesia is Increasingly Capable Digital".

The Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) on the official Kominfo 2017 website has released data on as many as 3.79 million MSMEs using online platforms in marketing their products. This number is around 8 percent of the total MSMEs in Indonesia, namely 59.2 million. To grow the number of MSMEs surfing in cyberspace, the Ministry of Cooperatives and Small and Medium Enterprises and the Ministry of Communication and Information (Kemkominfo) together with e-commerce players initiated a program titled 8 Million MSMEs Go Online.

The Minister of Finance (Minister of Finance) Sri Mulyani Indrawati on the official website of the Ministry of Finance of the Republic of Indonesia said that the Indonesian government continues to encourage digitization of Micro, Small and Medium Enterprises (MSMEs). As of June 2022, 19.5 million MSMEs have entered the digital ecosystem. Whereas in 2024, the government is targeting Indonesia to have 50 million MSMEs that enter the digital ecosystem. Meanwhile, the Ministry of Finance itself has a program to encourage access to finance and digitization for MSMEs, namely through MSME Financing Empowerment (U-Fine). With this program, MSMEs can apply for government program credit by using the internet. Then, the Ministry of Finance has also developed the digipay market. Through the digipay marketplace, the Indonesian government seeks to develop a pathway towards an MSME empowerment ecosystem through collaboration with multiple stakeholders.

The real challenges faced by the government in transforming MSMEs to digital are: first, the low level of digital literacy. According to a survey by the Ministry of Communication and Information

with the Katadata Insight Center (KIC) (2020), that Indonesia's digital literacy status is at a score of 3.47 out of 5 and is still not at a good level. The significant increase in the number of internet users in Indonesia is currently not accompanied by the same increase in the digital literacy index. Based on research by KIC (2020), one of the biggest obstacles for MSMEs is the difficulty in marketing their products, namely consumers are not able to use the internet (34%) and lack of knowledge of running an online business (23.8%), although there are other factors such as an unprepared workforce (19.9%), inadequate and inadequate telecommunication infrastructure (9.7%), lots of competitors (3.4%), only selling offline (1.9%), and the rest claim to have no problems (22.3 %).

Second, low digital financial literacy and inclusion. The national digital financial literacy level is still low, namely only 35.5 percent, the number of people who have used digital services is still small, only 31.26 percent. The financial inclusion index in Indonesia has only reached 76% (OJK, 2019). With the limited level of financial literacy and inclusion related to the use of financial technology payment services, it is possible that many MSMEs are still using the cash payment method to their consumers. Based on the results of a survey conducted by KIC (2020) on 206 MSME respondents, MSMEs relying on cash payments/direct payments, namely 88%, transfers 60.2%, e-wallets/digital wallets 10.2%, credit cards 7.8% and online installments without a credit card 0.5%. In fact, transactions on digital platforms generally use non-cash payments. Therefore, one of the conditions for getting the title of going online by MSME players is accelerating the use of digital payments when they want to enter online platforms.

Third, access to internet infrastructure is not evenly distributed in a number of rural areas, that is, 12,548 villages/kelurahan are still not covered by 4G services, 3T areas are

9,113 villages/kelurahan, and non-3T are 3,435 villages/kelurahan (Kemkominfo, 2020). Director of Integrated Operations of PT Unilever Indonesia Tbk Enny Hartati Sampurno (2020) also explained that around 20-25% of MSMEs in rural areas do not have smartphones and adequate internet networks. Based on the challenges as previously described. For this reason, it is necessary to have training and literacy activities, as well as outreach and education in the use of technology in society. Acceleration and expansion of network infrastructure development is also needed so that MSMEs can take advantage of the digital ecosystem more optimally. In addition, good synergy and cooperation is needed between related stakeholders (one of which is the Ministry of Communication and Information in terms of infrastructure, TVRI and RRI as literacy delivery media, the Ministry of Cooperatives and SMEs, as well as OJK and other banking institutions in terms of increasing digital financial literacy and inclusion). so that the implementation of the transformation program goes as expected, and provides benefits in particular for the future recovery and development of MSMEs, which has implications for a better Indonesian economy.

MSME Digitalization Program

According to data from the Ministry of Communication and Informatics (Kemkominfo, 2020), so far only 13% of the 64 million small and medium enterprises in Indonesia are connected to the digital ecosystem. According to a digital marketing specialist, Adreas Agung Bawono (2020), MSMEs must quickly adapt to online customer behavior with various social media facilities through digitizing business to meet their daily needs. representative from the Ministry of Cooperatives and SMEs, Plt. Herustiati (2020) states that increasing the competitiveness of MSMEs is very important in facing increasingly fierce global competition. To overcome these global challenges, MSMEs must be able to continue

to improve their business capabilities through the use of technology and product innovation.

Through the Ministry of Trade (kemendag), the government also encourages collaboration between MSME actors with marketplaces and modern retailers. The Minister of Trade explained that in addition to entering the digital ecosystem, MSMEs are also required and guided to be able to upgrade. The aim is to encourage MSMEs to enter modern retail so that their products are able to fill modern retail shelves. (kominfo.go.id, 2022). The retail sector has an important contribution in driving the recovery of household consumption which is one of the factors driving Indonesia's economic growth. Household consumption contributes 53.65 percent to GDP and grows 4.34 percent in the first quarter of 2022. (kominfo.go.id, 2022).

The Ministry of Cooperatives and Small and Medium Enterprises and the Ministry of Communication and Information (Kemkominfo) together with e-commerce actors such as Lazada, Shopee, MatahariMall.com, BliBli.com, Bukalapak, Tokopedia and Blanja.com initiated the "8 Million MSMEs Go Online" program, through work At the same time, the government also hopes to accelerate the transformation of MSMEs in Indonesia towards digital. Each e-commerce has its own program. For example, pedestrians at Bukalapak who have ground coffee programs in their respective areas to empower their communities. In addition, Blanja.com carried out several synergies with the Ministry of BUMN to hold roadshows in several regions as far as Eastern Indonesia.

The government through the Ministry of Communication and Information continue to develop digital infrastructure in order to support the development of the national digital economy. Currently, the first phase of the Palapa Ring fiber-optic cable backbone

network of 12,229 km has been in operation since 2019. Palapa Ring Integration contributes to internet penetration, both fixed broadband and mobile broadband, especially in unserved areas. Apart from that, the Ministry of Communication and Information also expanding the internet service network by building 4,200 Base Transceiver Stations (BTS) in 2021. (Kominfo.go.id). also provides mentoring training covering digital content production, managing it, understanding the market on the internet and conducting sales transactions and monitoring it.

Real government support for MSMEs is by creating a digital platform that brings together MSMEs and SOEs in order to optimize, accelerate and encourage the efficiency of shopping transactions, as well as expand and make it easier for MSMEs to get access to financing, which is called PaDi (Digital Market) for MSMEs. MSMEs are here as suppliers and vendors of SOEs in the various products that are distributed. Nine BUMNs are involved in the development of PaDi UMKM, including Telkom, which is also an aggregator of PaDi UMKM, and eight other BUMNs, namely Pertamina, BRI, PP, Pupuk Indonesia, Pegadaian, PNM, Waskita Karya, and Wijaya Karya. Then to strengthen the provision of financing to MSMEs, the Ministry of Cooperatives and Small and Medium Enterprises also collaborates with Himbara Bank. The PaDi program prioritizes domestically produced products/products with a relatively high Domestic Component Level (TKDN). Process shopping payment transactions using a virtual account. Data from the PaDi UMKM website currently has 27,000 UMKM registered as sellers at PaDi UMKM, with 1.7 trillion billion transactions.

D. CUNCLUSION

This Micro, Small and Medium Enterprises (MSMEs) in the current era face big challenges to survive. A multi-aspect strategy is needed for MSMEs to rise and restore stability, especially after the Covid-19 Pandemic. MSMEs should immediately adapt to changes in the business environment in the future, because business actors who can survive are those who are responsive to changes in the surrounding environment and are able to make adaptive adjustments to systems and technology that support business.

Building a digital system is something that can no longer be avoided for MSME actors. Digitalization is a solution for MSMEs to survive and participate in supporting the Indonesian economy. Digitalization provides many benefits for MSME actors in developing their business to improve business performance.

The government is providing various supports through the Ministry of Communication and Informatics, the Ministry of Trade, the Ministry of Cooperatives and Small and Medium Enterprises and several BUMNs for the development of MSMEs in a digital direction. Most recently, real support through the PaDi UMKM platform, helps MSMEs get business legality, advertise online and join Bekraf, e-commerce and other startups to get access to marketing with a wider range.

Author's Suggestion

It is important to note that the important role of information technology in business activities requires MSME players to improve their digital literacy, especially during the Covid-19 pandemic as it is today. Therefore, the author considers that the government should educate MSME players through socialization or training; thus, more MSMEs can transform.

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