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MSMEs as Drivers of the People's Economy and Their Challenges

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Abstract

In Indonesia, the people's economy must be the basic foundation for society to improve its standard of living and the government must ensure that its people can get decent jobs and be able to buy basic necessities. Decent jobs and strong purchasing power are absolute requirements for economic growth. The people's economy is based on the size of the economic growth rate or the nominal amount of Gross Domestic Product (GDP). Therefore, the government plays a major role in improving the welfare of its people by involving the people as a reliable resource and providing sufficient opportunities for Cooperatives and Micro, Small and Medium Enterprises (MSMEs) as well as economic activities, both in rural areas in the form of agricultural and fishing activities and other productive economic activities by protecting the people's economy from the power of the capitalist economy. Therefore, the government in this case must build elements or small parts of the community economy that are directly related to meeting the basic needs of the community.

Keywords : MSMEs ; People's Economy ; Economic Growth; Productive Economy; Empowerment Strategy

1. INTRODUCTION

A people's economy is an economic system based on the economic strength of the people. A people's economy itself refers to economic activities or businesses carried out by the majority of the population, who independently manage whatever economic resources they can cultivate and control. These activities are referred to as Small and Medium Enterprises (SMEs), which are aimed at meeting basic needs (Al Anshori, 2021; Ashari, 2020).

The concept of a people's economy was developed as an alternative approach by Indonesian economists to address the failures experienced by developing countries, including Indonesia, in implementing growth theory. The application of this theory, which had brought success in European countries, has resulted in different realities in a number of different nations (Pinem et al., 2022; Yulianti, 2016). In fact, in most developing countries, growth theory has actually led to widening socioeconomic disparities.

From this statement, it is clear that the concept of a people's economy was developed as an effort to prioritize the community. In other words , the concept of a people's economy is implemented as a strategy to build prosperity by prioritizing community empowerment. It can be emphasized that the primary goal of implementing a people's economic system is essentially to achieve social justice for all Indonesians by increasing the community's ability to control the wheels of the economy (Suryaningsi, 2020).

The people's economic system contains the meaning of a participatory economic system that provides the greatest possible access fairly and equally for all levels of society, both in the national production, distribution, and consumption processes and increases the capacity and empowerment of the community, as well as in an implementation mechanism that always pays attention to the function of natural resources and the environment as a supporter of life in order to realize equitable prosperity for all Indonesian people in a sustainable manner (Suryaningsi & Muhazir, 2020).

It can be emphasized that the primary objective of implementing a people's economic system is essentially to achieve social justice for all Indonesians by improving the community's ability to control the economy. If the primary objective of a people's economy is further elaborated, the main targets of a people's economy broadly include the following five points:

1. The availability of employment opportunities and a decent living for all members of society.
2. Implementation of a social security system for members of society who need it, especially the poor and neglected children.
3. The distribution of material capital ownership is relatively even among members of society.
4. The provision of free national education for every member of society.
5. Guaranteeing the freedom of every member of society to establish and become a member of economic unions.

Business competition in the business world forces every business actor to be able to survive and even develop their business, this is due to increasingly diverse consumer needs so that business people must be astute in using strategies to attract customers (Suryaningsi, 2016). Small businesses are one of the business actors who participate in this competition.

One of the challenges small businesses face is the rapid development of modern markets, which many feel is impacting traditional markets, most of which are run by individual small businesses. While modern markets are professionally managed and offer comprehensive facilities, traditional markets still face classic issues such as unprofessional management and uncomfortable shopping experiences. Modern and traditional markets compete in the same market : the retail market. Nearly all products sold in traditional markets can be found in modern markets, particularly hypermarkets.

The retail business is considered to be prospective, thus giving rise to extraordinary competition. Another competition that has also become a new problem for small businesses (this time shops) is the rapid growth of minimarkets with a franchise system that also competes for the same market share, namely the retail market.

The first franchise minimarket was Indomart in 1988. Initially, it was not very popular, as people tended to rely on local grocery stores for their daily shopping. However, SWA (2004) stated on its website that "since 1999, this air-conditioned shop has flourished." Several facts demonstrate the proliferation of franchise retail, both nationally and locally (in cities).

The problem with this minimarket development is its proximity to residential areas. Small shops, which typically supply everyday items to residents, will lose customers to minimarkets. While minimarkets are certainly attractive to residents due to their diverse selection and convenient location, they are also less likely to be found in the area.

The government has actually regulated the existence of modern and traditional markets through Presidential Decree (Perpres) Number 112 of 2007,

which regulates the Arrangement and Development of Traditional Markets, Shopping Centers, and Modern Stores. Article 5 of the Perpres states that new hypermarkets may only be located within arterial and collector road network access systems. Essentially, hypermarkets may not be located on smaller access roads, such as residential areas, and are also prohibited from being built in local service areas or neighborhoods within cities and towns, including limiting hypermarket space to more than 5,000 square meters. The same applies to wholesale centers. Supermarkets are limited to a minimum of 400 - 5000 square meters, minimarkets, 400 square meters. Even though there are already Presidential Decrees and regional regulations regarding this. In its implementation, the conflict between modern markets and traditional markets, will continue. Certainly, traditional markets will be squeezed out and abandoned by buyers and traders.

2. LITERATURE REVIEW

2.1 The Role of MSMEs as the Engine of the People's Economy

Recent literature (2024–2026) emphasizes that MSMEs are not merely business units but essential instruments for National Economic Resilience.

Contribution to GDP and Exports: MSMEs contribute approximately 60.5% of Indonesia's National GDP and account for 15.7% of non-oil and gas exports. This share is projected to rise alongside local product downstreaming targets (Samanto et al., 2024; Mahfud, 2025).

Labor Absorption: MSMEs absorb up to 97%–99% of the workforce, making them the primary solution for reducing unemployment and poverty rates (Pardede & Trimurni, 2023).

Income Equality: Unlike centralized large-scale industries, MSMEs are spread across rural areas, stimulating local money circulation and narrowing the economic gap between regions (Mainake, 2022).

Innovation and Flexibility: MSMEs possess a faster adaptation rate to market changes compared to large corporations due to their lean organizational structures (UN Global MSME Report, 2025).

2.2 Key Challenges (Internal & External)

Despite their vital role, the literature identifies significant "burdens" that hinder the scale of MSME growth:

2.2.1 Internal Challenges (Management & Capacity)

Low Financial Literacy: Many MSME owners struggle to separate personal and business finances, which prevents accurate profit-and-loss assessments (Samanto et al., 2024).

Limited Human Resources and Innovation: A lack of skilled personnel leads to inefficient operations and products that remain "static" or struggle to compete in global markets (Putra & Holisoh, 2023).

The Digital Divide: While the adoption of QRIS and e-commerce is increasing, many micro-entrepreneurs still face technological hurdles regarding data security and leveraging data for marketing strategies (Wijaya et al., 2025).

2.2.2. External Challenges (Systemic & Global)

Access to Capital: Administrative constraints and collateral requirements remain significant barriers for MSMEs seeking formal financing from banking institutions (Minetti et al., 2025).

Uneven Digital Infrastructure: Disparities in signal quality and logistics costs in remote areas create a competitive disadvantage for rural MSMEs compared to urban ones (MDPI, 2025).

Global Uncertainty ("Permanent White Water"): A term featured in the 2025 UN report describing raw material price fluctuations, trade tariff changes, and climate crises that hit MSMEs directly due to their minimal financial cushions (UN Report, 2025).

2.3 Future Strengthening Strategies

Based on the literature, the sustainability of MSMEs relies on three pillars:

1. Sustainable Digital Transformation: Moving beyond just "selling online" toward integrating payment systems, inventory management, and data-driven marketing.
2. Business Formalization: Encouraging MSMEs to obtain official permits (e.g., NIB) to facilitate access to government subsidies and bank credit.
3. Downstreaming of Local Products: Increasing the added value of raw materials (such as in agriculture and fisheries) before they reach the market to ensure higher profit margins (Wijaya et al., 2025).

3. METHOD

The research method used is an empirical method and library study sourced from a number of literatures including book references that can support the content of the writing, then a number of internet sites that can add scientific platforms to support the discussion topic, as well as direct observation by going into the field to observe problems that occur as additional scientific support.

4. RESULT AND DISCUSSION

This section describes empirical results regarding the financial performance of the Dairi Regency Government obtained through the Barata Dairi transparency budget portal. Researchers conducted a detailed secondary data analysis by comparing the realization of the Regional Revenue and Expenditure Budget (APBD) between Fiscal Year 2024 and Fiscal Year 2025.

Law No. 25 of 2000 concerning the 2000-2004 National Planning Program mentions 5 characteristics of a people's economic system, namely (1) upholding the principles of economic democratic justice accompanied by concern for the weak, (2) siding with, empowering and protecting the weak by all the nation's potential, especially the government according to its capabilities, (3) creating a healthy business competition climate and market-friendly interventions, (4) empowering people's economic activities which are closely related to rural development, (5) utilization and use of land and other natural resources, such as forests, sea, water, air and minerals in a fair, transparent and productive manner by prioritizing the rights of local people, including the customary rights of indigenous peoples while maintaining the sustainability of environmental functions.

The enforcement of the principles of economic democratic justice accompanied by concern for the weak as the main characteristic of the People's Economic System is inspired by the spirit of realizing social justice for all Indonesian people. Justice accompanied by a bias towards the weak is a very important step in accelerating poverty alleviation and limiting the concentration of economic power in the hands of a few people. Taking sides with the weak means providing various facilities, access to capital and education, and social protection to poor communities.

In a People's Economic System, addressing inequality and income distribution is a primary goal in achieving social justice for all Indonesians. Growth is meaningless if economic progress is enjoyed only by a select few. Growth must be accompanied by equality, and equality must be made the main target of national economic development.

A people's economy is an economic system or system in which ownership of economic assets must be distributed among as many citizens as possible. This distribution of economic assets to as many citizens as possible will ensure the equitable distribution of goods and services to as many citizens as possible. Unfair and unequal ownership of economic assets will lead to market failure, *Pareto efficiency* will not be achieved in the economy, and there will be no invisible hand to regulate justice and prosperity.

Next is the problem in public policy. As mentioned earlier, the government has three powers in the economy: allocation, distribution, and stabilization. Because the majority of the people lack

the power to control and access to public decision-making, these allocation and distribution functions are not functioning as they should.

Based on these three major issues, the essence of a people's economy is: how the government can carry out its allocation, distribution, and stabilization functions (or how fiscal policy, monetary policy, and policies in the real sector are implemented), so that the distribution of economic assets to the majority of the people can occur without distorting the market. Based on the problems I found in this people's economy, business actors are experiencing difficulties in developing their businesses due to a lack of funds for development and the increasing number of competitors in the form of private minimarkets that provide complete supplies. In this case, business actors feel outcompeted because they cannot develop their businesses.

The problem that arises is that entrepreneurs struggle to compete with larger businesses, such as minimarkets. Further details about this issue stem from limited funds needed to develop their businesses. A lack of capital severely limits the scope of business activities aimed at increasing revenue. With limited funds and the difficulty of obtaining external funding sources that could help address this lack of capital, efforts to rapidly improve the community's standard of living have become increasingly difficult (Mubyarto and Hamid, 1986). One of the problems frequently encountered in developing MSMEs is limited capital.

Capital is a classic problem for MSMEs, preventing them from growing year after year. For example, some entrepreneurs started with just 2 million rupiah in capital, borrowed from loan sharks, but after five years, they achieved monthly sales of around 150 million rupiah. This demonstrates that if only MSMEs could gain better access to capital from banks, we can imagine the progress they would achieve in developing their businesses.

If they can grow and develop without significant capital assistance, what more if they receive capital support (Wahyuni E, et al., 2005). This illustrates how MSMEs still have very limited access to capital. Meanwhile , banking policies remain more focused on consumer credit (housing, car loans , and others), which is allocated more heavily than financing and investment. The small credit allocation for the financing sector has apparently drawn government attention.

The development strategy that empowers the people's economy is a strategy for implementing economic democracy, namely that production is carried out by all, for all and under the leadership and ownership of members of society. The prosperity of society takes precedence over the prosperity of individuals. Therefore, poverty cannot be tolerated, and every development policy and program must benefit the poorest and least prosperous while also providing social security for them.

Therefore, it can be concluded that the substance of the people's economy includes three important elements in its implementation and can be described as follows:

First , there must be full participation from all members of society in the process of shaping national production. Full participation of all members of society in the process of shaping national production is crucial for a people's economy. In this way , all members of society receive a share of the results of national production. Therefore, as affirmed by Article 27 of the 1945 Constitution, "Every citizen has the right to work and a decent living for humanity."

Second , there is full participation of community members in enjoying the results of national production. This means that, within the framework of a people's economy, no one should be excluded from enjoying the fruits of national production, including the poor and abandoned children. This is emphasized by Article 34 of the 1945 Constitution, which states, "The poor and abandoned children shall be cared for by the state."

Third , the formation of production and distribution

of national production results must be under the leadership or ownership of community members. This means that in a people's economic system, economic sovereignty must be in the hands of the people. Not in the hands of capital owners as in the neoliberal market economic system. Even if, for example, national production formation activities are carried out by foreign investors, these activities must remain under the supervision and control of the community.

The discussion is the most important part of the entire contents of a scientific article. The purpose of the discussion is to answer research problems, interpret findings, integrate research findings into existing knowledge and develop new theories or modify existing theories.

5. CONCLUSION

After reviewing the above description, we discovered common problems experienced by entrepreneurs: a lack of capital to develop their businesses and competition from minimarkets, which is starting to kill their businesses. By recognizing the potential of a region, the government should be able to provide capital in the form of money or facilities, for example, providing cash assistance to develop MSMEs in that area and providing training on how to develop businesses. This can also reduce unemployment in the informal sector. The government should be able to address these problems by improving the welfare of its people, starting with targeting the lower classes who are willing to work to ensure the process is targeted.

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