

THE EFFECTIVENESS OF USE OF DIGITALIZATION IN SPEEDING THE DEVELOPMENT OF MSMEs IN GLOBAL ECONOMIC COMPETITION

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ABSTRACT

The existence of Micro, Small and Medium Enterprises (MSMEs) is an important highlight because of their sizeable share in the Indonesian economy. MSMEs are said to be the backbone of the Indonesian economy because they have a large contribution to Gross Domestic Product, absorb a high number of workers thereby reducing unemployment and poverty and encouraging increased investment and Indonesian exports. To strengthen the competitiveness of MSMEs, especially in global competition, MSMEs need to adapt and follow trends in technology, information and communication so as not to be left behind and stagnate. The problem raised in this research is how effective is the use of digitalization in spurring the development of MSMEs in global economic competition? This research method is library research based on literature related to research. The results of the discussion can identify many problems faced by MSMEs so that their growth and development are less than optimal. One of them is that there are still many MSMEs that are not yet digital-based in running their business, both in administrative management, HR, finance and marketing so that MSME products tend to be local. The solutions offered to accelerate the growth and development of MSMEs include the use of digitization in product management and marketing. So it can be concluded that digital-based MSMEs are effective in encouraging the growth and development of MSMEs. So it is suggested that MSMEs should take advantage of the digital system in running their business. Besides that, it is hoped that serious attention and government support for MSMEs through cross-sectoral policies.

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1. INTRODUCTION

The Covid-19 pandemic, which for almost two years has undermined the world, including Indonesia, has left problems, especially economic ones, for the lives of the world community. Development in all sectors has been delayed due to the Government disbursing enormous funds in handling Covid-19. The economic sector experienced a global sluggishness. Many companies are reducing employees in large numbers, resulting in an increase in unemployment and poverty. In fact, many companies closed because they were unable to survive the economic downturn. Of course this is a national problem and even a global problem.

After the Covid-19 pandemic, the Government of Indonesia is moving to restore the national economy, rising from sluggishness to catch up. The government launched various policy programs to accelerate national economic development. One of the Government's targets that needs to be stimulated is to increase the productivity of Micro, Small and Medium Enterprises (MSMEs). The role of MSMEs is considered to be significantly capable of supporting national economic growth. MSMEs are one of the leading sectors that can support the Indonesian economy. MSMEs have a large and crucial contribution to accelerating economic growth in Indonesia. In other words, MSMEs are at the forefront of supporting economic recovery and development in Indonesia. This is because MSMEs have proven to be able to survive amidst the economic storm during the covid-19 pandemic.

As reported by the statement of the Coordinating Minister for the Economy of the Republic of Indonesia, Airlangga Hartarto, quoted by Limaseto Haryo at the Great MSME Chat event with the theme "Current Drinks that Produce Cash", it was said that the Government had issued various policies accompanied by improvements in handling the pandemic. Indonesian MSMEs can start to revive, where in 2021 there will be 84.8% of MSMEs that have returned to normal operations. In addition, during the

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pandemic, it was recorded that 40% of MSMEs used digital technology to market their products and experienced an increase in income. This proves that the resilience of Indonesian MSMEs is tough enough to withstand the impact of the co-19 pandemic..

The results of the data submitted by Air Langga are proof of the strength of the ability of MSMEs to survive during the Covid-19 pandemic. Apart from making a big contribution to the Indonesian economy, MSMEs are also one of the solutions to reduce inequality and the income gap of the Indonesian people, because this sector has high economic resilience. It is this factor that has increasingly encouraged the Indonesian government to continue to create and support community-based economic empowerment programs. The Indonesian government continues to be committed to increasing the contribution of MSMEs to the national economy. Various MSME empowerment programs have been planned and implemented by the Government through Ministries and Institutions, although the results have not been optimal.

Therefore, in order to accelerate the Government's program to run more effectively and efficiently, synchronization and harmonization of the MSME empowerment program through cross-sectoral efforts is needed to increase the effectiveness of the implementation of the empowerment program. Of course, this is expected to be able to increase the contribution of MSMEs to the national economy. This effort requires information on the distribution and types of MSME empowerment programs that are complete as well as various implementation models for synchronization.

Empowerment of MSMEs aims to create a national economic structure that is balanced, developed and just, to grow MSMEs into resilient and independent businesses and to increase the role of MSMEs in job creation, economic growth and poverty alleviation as stipulated in article 5 of Law number 20 of 2008 concerning MSMEs.

The National Team for the Acceleration of Poverty Reduction (TNP2K) together with the Demographic Institute of the Faculty of Economics and Business, University of Indonesia (LD FEB UI) have mapped and tracked efforts to synchronize and harmonize MSME empowerment programs. Efforts to synchronize and harmonize the empowerment of MSMEs aim to

- 1) Map and analyze MSME empowerment programs implemented by a number of groups and institutions;
- 2) Assessing the experiences of other countries and taking lessons (Best Practices) from them in harmonizing and synchronizing MSME empowerment programs;
- 3) Conducting an assessment of the synchronization readiness of the MSME empowerment program;
- 4) Provide recommendations needed in synchronizing MSME empowerment programs.

Then quoting the press release release of the Coordinating Ministry for Economic Affairs of the Republic of Indonesia HM.4.6/155/SET.M.EKON.3/3/2022, March 21 2022 entitled "Acceleration of Improving HR Quality and Entrepreneurial Spirit to Increase Opportunities for MSME Entrepreneurs" mentions that one of the keys to maintaining the current economic recovery momentum and achieving better economic growth is through strengthening MSMEs. MSMEs are critical engines for the economy, considering their contribution to the Gross Domestic Product (GDP) reaches 61% by absorbing 97% of the national workforce. In addition, MSMEs also play a role in encouraging increased investment and Indonesian exports. Total investment in the MSME sector reaches 60% of total national investment and its contribution to national non-oil and gas exports reaches 16%..

However, in practice, MSMEs often face obstacles in running their business. One of the problems faced by MSMEs is the lack of recognition of MSME products nationally, let alone internationally. MSME products are more widely known locally. In fact, with the rapid and global development of information technology without geographical boundaries (borderless), this is a huge opportunity to introduce and market MSME products. This also has an impact on the limited network of cooperation with other business actors nationally and internationally. The problem of product advertising and marketing should be in the hands of hands through electronic media. In fact, digitalization-based product marketing can be easily done. The problem is that many MSMEs do not take advantage of this opportunity or because of a lack of understanding in utilizing information technology media. As a result, the growth and development of MSMEs as the forefront of the national economy has been slow.

Based on the description above, it is interesting to conduct research that aims to determine the effectiveness of using digitalization in spurring the development of MSMEs so that they are strong and able to survive in global economic competition. Strong MSMEs will have implications for the strength of the national economy.

2. METHODS

This research is library research (Library Research) in which data are obtained from literature books, papers, articles, and others related to research. This research is a qualitative research to obtain a conclusion based on the analysis of the data in the discussion.

3. RESULTS AND DISCUSSION

MSMEs and their Problems

MSMEs are part of the national economy which is self-reliant. MSMEs also have great potential in increasing Indonesia's economic growth. The development of MSMEs in the country is also increasing, both in terms of the number of units and in terms of Gross Domestic Product (GDP). Based on data from the Ministry of Cooperatives and Small and Medium Enterprises in 2020, it was recorded that MSMEs contributed to GDP by 61 percent and were able to absorb 97 percent of the total workforce. Based on these data, it is known that MSMEs contribute to state revenue and can also be a solution to alleviating poverty and unemployment because they are able to absorb labor. That is why the role of MSMEs is very important in the economy as well as being able to play a significant role in improving people's welfare.

However, in practice, MSMEs still face obstacles so that their development and competitiveness are still not significant. According to Muhammad Lutfi, in signing the Memorandum of Understanding between the Ministry of Cooperatives and SMEs, the Ministry of Trade, and PT Sarinah and PT Ina Product Indonesia on 28 October 2022 that there are three main problems faced by Indonesian MSMEs which cause Indonesian MSMEs to not have good competitiveness, namely:

- 1) Lack of experience that makes it difficult for MSMEs to adapt to developments;
- 2) Lack of network or networking, it is difficult for MSME actors to compete;
- 3) Lack of funding.

Lutfi further said that the number of exporters from the MSME sector currently reaches 85 percent of the total 15 thousand exporters. However, if you look deeper, this figure only reaches 5 percent of Indonesia's total non-oil and gas exports.

Besides that, the Board of Commissioners of the Financial Services Authority (OJK), Tirta Segara, quoted from online news Republika.co.id on May 24, 2022. Currently, there are still many problems faced by the MSME sector in order to be able to upgrade, thereby contributing more to the economy. First, many MSMEs have not utilized digital technology, especially in marketing and market access. Currently, 13 percent of MSMEs are already connected to digital technology. The use of technology is considered important not only in promotion, but also in MSME management. Second, access to financing or business capital. It is recorded that around 74 percent of MSMEs have not had access to financing, making it difficult for them to increase their production scale. This difficulty in accessing capital occurs due to the complexity of the procedures and the large number of documents that must be filled out at banking or financial service institutions. As a result, many are looking for alternative financing to become trapped in loan sharks. Third, the low quality and capability of Human Resources. Many MSME actors still find it difficult to do marketing, lack innovation, find it difficult to arrange licensing, and are unable to manage financial reports.

Referring to the data above, the problems experienced by MSMEs in running their business can be identified as follows:

- 1) Limited business capital, because MSME actors tend to use their own capital in running their business. Opportunities to increase capital through banks were not obtained for a number of reasons, namely MSME actors did not want to borrow money at banks, did not have vehicle certificates or documents that could be used as collateral for loans, too many bank administrative matters made it difficult for MSME actors.
- 2) Product forms are less innovative and creative so that product forms and types tend to be monotonous from time to time.
- 3) Limited quality of human resources (HR) and lack of experts, both administratively and technically.
- 4) Does not have a business license and product brand, which raises doubts for consumers as a result, the number and types of consumers are limited.
- 5) Lack of understanding of company management so that the company is run in a traditional way.
- 6) Lack of understanding of financial management so that company financial accounting and analysis is carried out conventionally or manually.
- 7) Lack of understanding of marketing management so that products are less well known and less able to maintain customer loyalty.

- 8) The company's management system is self-taught and does not yet use the digitalization system, including human resource management, finance, product analysis, which is not optimal.
- 9) Lack of company administration skills and do not have experts in the field of company administration.
- 10) The MSME network is still local, so access or business networks nationally and internationally are still lacking.
- 11) Lack of understanding of how to run a business online is an obstacle in the process of digitizing MSMEs.

Tracing the identification of the problems above it is known that in general MSMEs in managing their business are still manual in the regional scope. To grow more rapidly, MSMEs must change their business management patterns from manual to digital. In digital HR management, for example, MSMEs must have an employee database and apply digital-based employee attendance. Likewise, administrative and financial management must also implement a digital system.

Apart from that, no less important is the problem of marketing which includes advertising of business products that must take advantage of advances in information technology. MSMEs can easily introduce their products through social media such as market places, Facebook, Instagram, Twitter, Telegram, and follow trends through digital channels. Lack of product advertising will result in less recognition of the product in the trade market. This also has an impact on the limited business network of MSME actors. Therefore, it is necessary to make efforts to introduce products intensively by MSME players, both through conventional advertising, especially by utilizing information technology that is already worldwide.

The Benefits of Digitalization in Stimulating the Development of MSMEs

The development of technology, information and communication cannot be stopped by the rapid development. Almost every aspect of people's lives has been touched by digital. Advances in information technology in the digital era can make everything very easy because it is quite accessible through the palm of your hand. The progress of the digital era has had an impact on various fields, including business activities, which include digitizing MSMEs. In order not to be left behind and immersed in the flow of digitalization, all levels of society must master information and communication technology, including for MSME actors. Business digitalization has become a necessity for the perpetrators with the consequence of losing their potential market.

Business digitalization should have reached the small-level business level, namely MSME actors, because it will be very beneficial for MSMEs in developing their business with a digital system. Even though the digital world has developed rapidly for large-scale businesses, in fact not many MSMEs have experienced business digitalization. Based on Sea Insight survey data in June 2020, it showed that 54 percent of MSMEs had used social media to sell online and as many as 45 percent of MSMEs sold through e-commerce. It is proven that business through digitization will provide many advantages for MSMEs. Consumer lifestyles have also switched to living a digital lifestyle and using cashless methods in their daily activities.

Therefore it is important for MSMEs to digitize, especially useful for marketing, reaching customers, product information, maintaining customer loyalty, serving consumers, and so on. The benefits derived from digitizing MSMEs include:

- 1) Wider marketing reach
Through digitization, MSMEs can reach a wider market. The digital market can bring MSMEs to meet consumers outside their area of origin in various regions, even overseas.
- 2) Able to adapt to the market
Digitalization makes MSMEs more capable and ready to adapt to market conditions, because today's people's lifestyles have changed to become more practical by utilizing technology. People are more likely to use a cashless pattern.
- 3) MSMEs are more professional
The digitization of MSMEs is a new chapter in business competition in the modern industrial realm. Digitizing MSMEs will provide professional value to MSMEs in running a business.
- 4) Target market can be maintained
Customers can reach sellers anytime and anywhere without having to come to a shop or stall. With the digitization of MSMEs, the potential for losing the target market will be small. Even the target market will increase.

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- 5) Easy to follow market trends
Information on business developments and emerging trends will be easily accessible through digital information media. MSMEs can adjust customer tastes according to the current trend.
- 6) Promotion costs are more efficient
To market their products, MSMEs can buy a website domain or use social media. Of course it will be far more efficient than selling with a conventional system so that promotion costs can be reduced and more economical.
- 7) Save production costs
Doing digital business can save on production costs because there are several costs that can be saved, such as promotion costs, shop or stall rental costs, labor costs, and so on.
- 8) Easy to serve customers
Even though they are far away, sellers and customers can still make buying and selling transactions very easily and are easily served in real time. MSME actors will also receive orders and payments at any time from their consumers. This is of course more efficient in terms of time. In addition, businesses become more productive and their chances of making big profits are higher.
- 9) Business development opportunities
An entrepreneur must be able to develop products that are not only based on mere innovation but on market needs. Product development can be achieved easily because information related to market needs and trends can be obtained easily.
- 10) Product Quality Improvement
Increasingly stringent business competition and wider reach even abroad, will encourage MSMEs to improve product quality through comparisons with other products outside the region. Packaging or product packaging is also made to be more attractive and better.
- 11) Income Increases
Broad reach, quality products and extensive marketing will increase the quantity of product sales. This will provide benefits and increase income for MSMEs.

The Role of Government in the Development of MSMEs

MSMEs are one of the main pillars of the national economy which must get the main opportunity, support, protection and development as wide as possible as a form of alignment with the people's economy. For this reason, various policies regarding business reserves, funding and development have been established, but they have not been optimal. In this regard, MSMEs need to be empowered by:

- a) business climate growth that supports MSME development;
- b) development and coaching of SMEs.

In 2022 after going through the sluggish times of the Covid-19 era, it is believed that Indonesia will have good momentum to accelerate national economic recovery. This momentum is also an opportunity to expand MSME financing through People's Business Credit (KUR) so that business activities are strengthened and encourage national economic growth. In 2022, MSMEs will also receive priority in the budget allocation for the National Economic Recovery Program (PEN) to encourage faster recovery. Based on data from the Coordinating Ministry for Economic Affairs through a press release HM.4.6/105/SET.M.EKON.3/3/2022, dated March 4 2022, entitled Government Increases Access to Finance Through People's Business Credit for MSME Development, it is said that the distribution of KUR continues showed an increase in which the realization of KUR in 2021 increased 42% compared to 2020, so that it reached IDR 281.86 trillion (98.9% of the 2021 target change of IDR 285 trillion) and was given to 7.4 million debtors.

KUR distribution in 2022 until February 28, 2022 was recorded at IDR 55.06 trillion (14.75% of the 2022 target of IDR 373.17 trillion) and was given to 1.26 million debtors. So that the total outstanding KUR on 28 February 2022 amounted to IDR 412 trillion with a relatively low Non Performing Loan (NPL) of 0.98%. The largest portion of KUR distribution per sector in 2022 is distributed in the trade sector (44.8%) followed by the agricultural sector (30.5%) and services (13.7%). The government has also extended an additional KUR interest subsidy of 3% from the end of June 2022 to the end of December 2022. Thus, the KUR interest rate until the end of December 2022 is only 3%. In addition, the Government also provides a grace period of 5 years. In realizing the MSME development program in the financial sector, the Government issued policies, including requiring banks to channel credit at least 30% of total loans in 2024, increasing the amount of MSME loans to IDR 10 billion, restructuring MSME loans affected by Covid-19, and relaxing policies and additional KUR ceiling.

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So that's why it's in accordance with the mandate of the UMKM law, that UMKM needs to be protected so that it grows and develops so that it is strong and independent. In order to fulfill this mandate, the Government needs to anticipate the occurrence of monopolistic practices and unfair business competition through the provisions of Law Number 5 of 1999 concerning the prohibition of monopolistic practices and unfair business competition. Monopolistic practices and unfair business competition will affect and disrupt MSME production. The law also prohibits large business actors from using their market power to hinder and harm other business actors, including MSMEs. One of the objectives of the law is to guarantee equal business opportunities for every business actor in Indonesia. It is hoped that with the existence of this law, MSMEs can carry out their business safely in fair business competition so that economic activities will run well. This shows that business competition policies and laws in Indonesia are always in favor of MSMEs.

In the Tourism Sector, the Minister of Tourism and Creative Economy (Menparekraf), Sandiaga Uno, in the 2022 Indonesian Creative Appreciation Program (AKI) in Tangerang Banten said that AKI was designed to provide solutions to all MSME problems. The MSME development solution will be carried out through: there is boot camp training for MSMEs, facilitating direct marketing at malls, cashier and money can't financial training, applications that can provide solutions, provide opportunities or access for MSME actors in the financing needed for business development they. As a form of commitment, the Ministry of Tourism and Creative Economy (Kemenparekraf) has a Tourism Village Program that will help and reach the development of MSMEs, especially those in rural areas. Currently, there are several regencies/cities that have participated in the sampling process to become regencies/cities with leading creative sub-sectors. Excellent programs such as AKI can support the National Proud Movement for Indonesia (Gernas BBI) campaign and are one of the efforts to improve the economy in Indonesia. "We are able to compete with MSME products from other countries and we must be proud that they are made in Indonesia, we must love local products, we must make them a locomotive for economic development," said the Menparekraf.

Apart from that, what is equally important is the government's role in helping the marketing of local MSME products both at the national and international levels. Through exhibitions of MSME products facilitated by the government, it is one of the solutions to introduce regional products while helping MSMEs in overcoming marketing problems faced by MSME actors in business competition in the era of globalization.

4. CONCLUSIONS

Based on the results of the discussion as described above, it can be concluded as follows: Digitalization of MSMEs should be implemented following the globalization of information and communication technology in free market competition because digitalization has proven to be effective in spurring the development of MSMEs in global economic competition. Digitalization of MSMEs shows the quality and professionalism of products and management in the eyes of consumers. The strategic role of MSMEs as the front guard in national economic development needs the support of many parties such as banks, entrepreneurs who are already independent as adoptive fathers, local governments and other related parties.

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