

# MSMEs and Rural Prosperity: A Study of their Influence in Indonesian Agriculture and Rural Economy

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**Abstract:-** This research delves into the influence of Micro, Small and Medium Enterprises (MSMEs) on the progression of agriculture and the rural economy in Indonesia. MSMEs hold a pivotal position in the Indonesian economy, significantly contributing to job creation and economic expansion. Despite this, their potential to stimulate agricultural growth and enhance the rural economy remains largely uncharted. The investigation of this study centers on the mutual relationship between MSMEs and the agricultural sector. It emphasizes how MSMEs can instigate innovation, augment productivity, and pave the way for rural farmers to access markets. The study also scrutinizes the part MSMEs play in rural development by evaluating their role in boosting income, mitigating poverty, and empowering socio-economic aspects in rural regions. Furthermore, this study identifies the obstacles MSMEs encounter in their contribution to agricultural and rural economic development. These challenges include access to finance, technology, and a complex workforce. The report puts forth policy recommendations to surmount these hurdles and tap into the potential of MSMEs for the advancement of agriculture and rural economic growth in Indonesia. The study enriches the literature on MSMEs, agricultural development, and rural economics. It offers valuable insights for policymakers, practitioners, and researchers who are keen on promoting sustainable development in Indonesia. The findings of this research underscore the necessity of fortifying MSMEs to attain agricultural development and rural economic prosperity in Indonesia.

**Keywords:-** Agricultural, Economy, MSMEs, Rural Development, Indonesia.

## I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in achieving Sustainable Development Goals (SDGs) in developing countries. Their contributions extend

beyond economic growth and encompass broader social objectives[Tambunan, 2023].

➤ According to Herfanni, H., & Ratnasih, C. (2023),

MSMEs significantly contribute to job creation, poverty alleviation, and empowerment. They empower communities, particularly women and the younger generation, by providing job opportunities. Fostering entrepreneurship in the UMKM sector promotes inclusive growth and economic prosperity.

Inherent Characteristics of MSMEs demonstrate inclusive growth and sustainable development due to their inherent characteristics. They directly benefit vulnerable community groups, reducing poverty and enhancing economic status. Empowerment and economic status improvement are outcomes of the growth driven by MSMEs

Global Initiatives that Governments worldwide have launched flagship programs to promote MSMEs. However, challenges persist, and additional stimulus is needed to strengthen this sector.

Path Towards SDGs, MSMEs need to access new technologies, global markets, and competitiveness. By doing so, they can significantly contribute to achieving the UN's SDG targets by 2030[Tambunan, 2023].

Rural MSMEs, accelerates rural MSME's is crucial for an inclusive, sustainable, and resilient food system, especially in the context of agricultural development.

MSMEs Role in achieving SDGs in Indonesia, a study examines that the contributions of MSMEs in achieving SDGs in Indonesia. It shows that MSMEs indirectly participate in poverty and hunger alleviation by creating jobs and business opportunities, especially for women and the younger generation, and generating GDP. MSMEs also contribute to reducing invisibility by providing business opportunities to women, low-skilled/unskilled youth, and people with disabilities[Tambunan, 2023].

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The role of Micro, Small, and Medium Enterprises (MSME) in Indonesia, their challenges, and the importance of creating business opportunities for women (S. Saiful, Hotma Napitupulu, & Sabar Napitupulu. 2023).

MSMEs in Indonesia, absorb almost 97% of the total workforce, contribute 60.5% to the national GDP, and drive investment. MSMEs are the backbone of Indonesia's economy, utilizing natural and human resources for growth [Harsono et al., 2024].

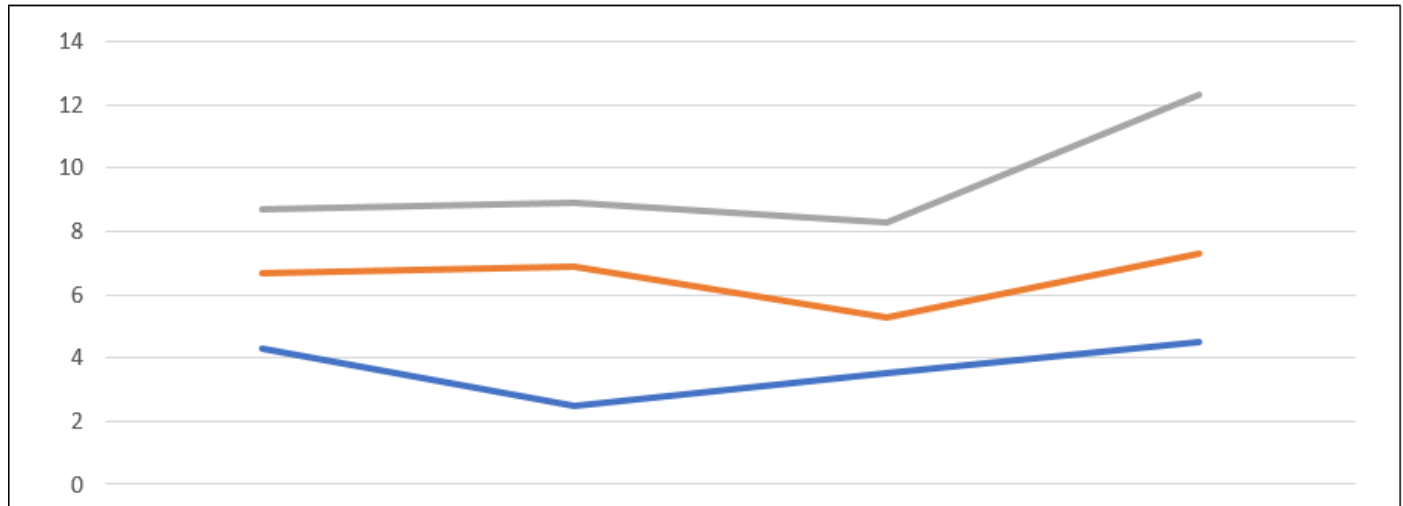


Fig 1 MSMEs Contribution to Indonesian Economy: 97% Workforce, 60.5% GDP

In Indonesia, Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economy. They actively engage almost 97% of the total workforce, make a significant contribution of 60.5% to the national GDP, and stimulate investment. Serving as the backbone of the Indonesian economy, MSMEs effectively utilize both natural and human resources to foster economic growth. This active MSMEs emphasizes the proactive role in Indonesia's economic development.

MSMEs that utilize the digital platform ecosystem play a significant role in economic growth. Digital transactions, especially in the food and beverage sector and home care services, support economic growth. The development of MSMEs can reduce poverty rates in Indonesia and expand employment. They also utilize the potential of natural resources and human resources, which can enhance the economic growth of a country.

Table 1 Impact of MSMEs on Agricultural Development in Indonesia

The Impact of MSMEs on Agricultural Development in Indonesia	Description
Empowerment of MSMEs	Empowering MSMEs in the agricultural sector has a significant direct effect on economic capital, increasing by 21.6 percent, and a very significant positive direct effect on the ability of agricultural business actors, increasing by 20.9 percent.
Contribution to GDP	During the 2010–2019 period, MSMEs contributed 20.4 percent of export value, and 53 percent of micro-enterprises were managed by poor households. The number of MSMEs reached 65.5 million with a contribution to gross domestic product (GDP) of 61.07 percent.
Digitalization	MSMEs that utilize the digital platform ecosystem play an important role in economic growth. Digital transactions, especially in the food and beverage sector and home care services, support economic growth.
Works	The development of MSMEs can reduce unemployment in Indonesia and expand employment opportunities.
Impact of Digitalization	The government has taken various steps to overcome the challenges faced by MSMEs due to globalization and hopes that by 2024 MSMEs can support 17% of the national economy.

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in the agricultural development and rural economy of Indonesia. Their empowerment, particularly in the agricultural sector, is crucial. A study conducted in Surakarta, Indonesia, revealed that the empowerment of MSMEs had a significant direct impact on economic capital,

with an increase of 21.6 percent. It also had a very significant positive direct effect on the capabilities of agricultural business actors, increasing by 20.9 percent.

During the period from 2010 to 2019, MSMEs made a substantial contribution to the economy. They accounted for

20.4 percent of export value, and 53 percent of micro businesses were managed by households classified as poor. The number of MSMEs reached 65.5 million, contributing 61.07 percent to the gross domestic product (GDP).

The digitalization of MSMEs, especially those utilizing the digital platform ecosystem, has been instrumental in driving economic growth. Digital transactions, particularly in the food and beverage sector and home care services, have supported this growth<sup>3</sup>. Furthermore, the development of

MSMEs has helped reduce unemployment in Indonesia and expand employment opportunities (Altman, S. A., & Bastian, C. R. (2021).

MSMEs have a significant role in the development of agriculture and the rural economy in Indonesia. They contribute to poverty alleviation, job creation, gender equality, and economic growth. However, there are still challenges that need to be addressed to fully exploit their potential.

Table 2 MSMEs' Aspects are in the Rural Economy of Indonesia

Aspects	Impact of MSMEs
Contribution to GDP	According to data from the Ministry of Cooperatives and SMEs in 2021, there are around 64.2 million MSMEs in Indonesia which contribute 61.07% or IDR 8,573.89 trillion to national GDP.
Providing Job Opportunities	MSMEs provide employment for 97% of the total workforce in Indonesia, around 117 million workers. More than 64.5% of these workers are women.
Unemployment Reduction	The development of MSMEs can reduce the level of expansion and expansion of employment opportunities in Indonesia. Research also shows that MSME financing at Sharia Banks contributes significantly to reducing poverty in Indonesia.
Women's Economic Empowerment	MSMEs led by women in rural areas of Indonesia also benefit from various economic empowerment programs.
Digitalization of MSMEs	MSMEs help build a sustainable economy.
Challenge	Although MSMEs have a great positive impact, they also face various challenges, for example limited access to proper financing, lack of business management skills, and innovation.

The Impact of Micro, Small, and Medium Enterprises (MSMEs) on Agricultural Development and Rural Economy in Indonesia. This study delves into the influence of MSMEs on agricultural development and the rural economy in Indonesia. Despite their significant contribution to job creation and economic growth, the potential of MSMEs in fostering agricultural development and enhancing the rural economy remains largely unexplored.

The research aims to investigate the symbiotic relationship between MSMEs and the agricultural sector. It focuses on how MSMEs can drive innovation, increase productivity, and facilitate market access for rural farmers.

The study also scrutinizes the role of MSMEs in rural development, assessing their contribution to income increase, poverty alleviation, and socio-economic empowerment in rural areas.

This report proposes policy recommendations to overcome these challenges and harness the potential of MSMEs for agricultural development and rural economic growth in Indonesia. Contribution to Literature, this research contributes to the literature on MSMEs, agricultural development, and rural economics, providing valuable insights for policymakers, practitioners, and researchers interested in promoting sustainable development in Indonesia.

The findings of this research underline the importance of strengthening MSMEs to achieve agricultural development and rural economic prosperity in Indonesia.

The research is identified as the unexplored potential of Micro, Small, and Medium Enterprises (MSMEs) in encouraging agricultural development and improving the rural economy in Indonesia. Despite the significant role of MSMEs in the Indonesian economy, their specific impact on agricultural innovation, productivity, market access for rural farmers, and rural socio-economic empowerment has not been thoroughly investigated. The aims to fill this gap by examining these aspects. Additionally, it seeks to identify the challenges MSMEs face in contributing to agricultural and rural economic development and propose policy recommendations to address these challenges. This study thus contributes to the existing literature and provides valuable insights for policymakers, practitioners, and researchers.

## II. RESEARCH METHODS

The method involves collecting secondary data about MSMEs in Indonesia, their role in the economy, their constraints, and their potential for creating business opportunities. This data can be analyzed to provide a comprehensive picture of the current state of MSMEs and their impact on agricultural development and the rural economy.

- **Digitalization Survey**, is given the increasing importance of digital technology, conducting a survey on the digitalization status of Indonesian MSMEs can provide valuable insights. This study can help understand how MSMEs are adapting to the digital economy and the impact of this on their innovation and productivity. Case Studies: Select specific provinces or regions in Indonesia and conduct in-depth studies on the MSMEs operating .

The method can provide detailed insights into the challenges and opportunities faced by MSMEs in different regions.

- Analyze the impact of various rural development programs that the Indonesian government has implemented on agricultural production. They can provide insights into how these programs are influencing the growth and development of MSMEs in rural areas, impact analysis of Rural Development Programs,
- Cooperation Analysis, investigate the role of cooperations in the development of MSMEs. How collaborations and partnerships can support the growth of MSMEs and their contribution to agricultural development and the rural economy.

### III. ANALISYS AND DISCUSSIONS

The impact of Micro, Small, and Medium Enterprises (MSMEs) on agricultural development and the rural economy in Indonesia has been the subject of numerous studies and data collections. The Indonesian Central Statistics Agency, for instance, has calculated macroeconomic data for MSMEs, including Gross Domestic Product (GDP), PMTB, exports, labor absorption, and the entrepreneurship ratio. It was found that the majority of MSME workers are employed in agriculture, trade, and the processing industry.

In addition, a journal is discussing sustainable economic development strategies in villages has shed light on the importance of community empowerment and local economic independence. This research, conducted in four villages in Central Java, Indonesia, demonstrated that sustainable economic development in rural areas requires a holistic and integrated strategy that encompasses various aspects of local community life, including economic, social, cultural, and environmental needs.

The dynamics of rural household income have also been explored, with discussions focusing on household income, agricultural and non-agricultural income, its relationship with land tenure, and disparities in household income. Furthermore, the diversity of agriculture in West Java has been highlighted through survey findings, where farmers cultivate various types of crops and livestock. These studies provide a comprehensive view of the impact of MSMEs on agricultural development and the rural economy in Indonesia.

MSMEs play a significant role in the Indonesian economy, contributing to job creation and economic growth. They also foster a symbiotic relationship with the agricultural sector, encouraging innovation, increasing productivity, and facilitating market access for rural farmers. MSMEs also contribute to rural development by increasing income, alleviating poverty, and empowering socio-economically in rural areas. However, MSMEs face challenges in contributing to agricultural and rural economic development, such as access to finance, technology, and an activated workforce. To overcome these challenges and harness the potential of MSMEs for agricultural development and rural economic growth in Indonesia, policy recommendations have been proposed.

#### ➤ *Hypothesis 1: What is the Role of MSMEs in Agricultural Innovation?*

Micro, Small and Medium Enterprises (MSMEs) are pivotal in fostering agricultural innovation in Indonesia. They have harnessed digitalization to market their products via social media and online marketplaces, thereby expanding their consumer reach. The adoption of technological innovation by MSMEs has led to enhanced productivity and increased income, strengthening the household economy and bolstering food security. However, to fully utilize technological innovation, MSMEs require regular and continuous assistance and monitoring. According to data from the Ministry of Cooperatives and SMEs (2023), MSMEs are projected to contribute approximately 61.9 percent to the GDP in 2022. This underscores the strategic role of MSMEs in shaping the national economy and promoting innovation in the agricultural sector.

#### ➤ *Hypothesis 2: How do MSMEs Encourage Innovation in the Agricultural Sector?*

MSMEs stimulate innovation in the agricultural sector primarily through the adoption of digital technology. Bank Indonesia (BI) posits that fortifying the role of food MSMEs in the economic ecosystem, coupled with digital technology adaptation, will enhance the strength of MSMEs in the agricultural sector. The transformation of food MSMEs through clusterization, capacity building, and digitalization is believed to augment their role in local, national, and global supply chains. Furthermore, BI, in collaboration with central and regional governments and strategic partners, is continually developing integrated business models to facilitate MSMEs' penetration and expansion into export markets.

Research by the Agricultural Research and Development Agency indicates that the success of MSMEs in the agricultural sector hinges not only on capital availability but also on technological innovation. Innovations that add economic value, are uncomplicated, align with MSMEs' culture, can be implemented with minimal risk, and yield immediate results, spur optimal productivity and income growth. In turn, strengthens the household economy and supports robust food security.

#### ➤ *Hypothesis 3: What Types of innovation have been introduced, and how have they impacted productivity and market access for Rural Farmers?*

Several innovations have been introduced in rural agriculture in Indonesia to boost productivity and market access for farmers. A key innovation is the application of modern technology in agriculture, including improvements to roads, irrigation, and transportation systems, enabling farmers to access markets more efficiently.

Quality agricultural education and training, encompassing the latest agricultural techniques, sustainable practices, and agricultural business management, is also a crucial part of this innovation. With the right technology, farmers can better manage their resources, avoid waste, increase production efficiency, reduce manual workload, and enhance overall productivity.



Moreover, quality agricultural education and training equip farmers with improved knowledge and skills, enabling them to boost the productivity and sustainability of their farms. This innovation has also improved rural farmers' market access. With adequate infrastructure, farmers can maximize their harvests and expand their market reach.

Several AgTech organizations in Indonesia, such as MSMB Indonesia, Habibi Garden, and eFishery, have provided solutions for farmers to adopt accurate agricultural practices and use the internet or Internet of Things (IoT), thereby increasing the efficiency of staple food production and other agricultural products. These organizations have also helped establish robust marketing systems and ensure fair and open access to markets. Farmer cooperatives, local markets, and online platforms serve as channels to broaden the reach of agricultural products.

**The Role of MSMEs in Agricultural Innovation:** In Indonesia, Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in fostering agricultural innovation. They have harnessed digitalization to market their products via social media and online marketplaces, thereby broadening their consumer reach. The adoption of technological innovation by MSMEs can stimulate optimal productivity, augment income, fortify the household economy, and bolster food security. To ensure that technological innovation in the agricultural sector is used to its fullest potential, regular and continuous assistance and monitoring are imperative. Given that MSMEs contributed approximately 61.9% of the GDP in 2022, they hold a strategic position in shaping the structure of the national economy and propelling innovation in the agricultural sector.

**How MSMEs Encourage Innovation in the Agricultural sector,** MSMEs stimulate innovation in the agricultural sector, particularly by incorporating digital technology. Bank Indonesia (BI) posits that fortifying the role of food MSMEs in an integrated economic ecosystem, in tandem with the adaptation of digital technology, will bolster MSMEs in the agricultural sector. Transformation of food MSMEs via clustering, capacity building, and digitalization is anticipated to enhance their role in local, national, and global supply chains. Research conducted by the Agricultural Research and Development Agency indicates that the existence and success of MSMEs in the agricultural sector are influenced not only by capital availability but also by technological innovation. Technological innovations that generate added economic value, are uncomplicated, align with the habits or culture of MSMEs, can be implemented with minimal risk, and yield immediate results that foster optimal productivity and income growth.

**Types of Innovations Introduced and their impact on Productivity and Market access for Rural Farmers,** A variety of innovations have been introduced in rural agriculture in Indonesia to boost productivity and market access for farmers. One significant innovation is the employment of modern technology in agriculture, the enhancement of roads, the provision of adequate irrigation, and the development of transportation systems that enable farmers to access markets

more efficiently. Quality agricultural education and training also form a crucial part of this innovation. These innovations significantly impact productivity. With appropriate technology, farmers can better manage their resources, avoid waste, increase production efficiency, reduce manual workload and enhance overall productivity. These innovations also help rural farmers improve their market access. With sufficient infrastructure, farmers can maximize harvest yields and broaden their market reach. Several AgTech organizations in Indonesia, such as MSMB Indonesia, Habibi Garden, and eFishery, have offered solutions for farmers to adopt precise agricultural practices and use the Internet or Internet of Things (IoT), thereby increasing the efficiency of staple food production and other agricultural products. They also assist in building robust marketing systems and ensuring fair and open market access. Farmer cooperatives, local markets, and online platforms can be used to extend the reach of agricultural products.

#### IV. CONCLUSION

This study comprehensively illustrates that micro, small, and medium enterprises (MSMEs) significantly impact agricultural development and rural economies in Indonesia. By contributing to job creation and economic growth, MSMEs play a crucial role in the Indonesian economy. Most MSME workers engage in agriculture, trade, and the processing industry.

MSMEs can foster innovation, enhance productivity, and ease market access for rural farmers, although the specific impact can differ depending on region and MSME type. This study evaluates how MSMEs contribute to income growth, poverty alleviation, and socio-economic empowerment in rural areas. Despite facing challenges such as access to financial resources, technology, and skilled workforce, MSMEs still contribute to agricultural and rural economic development. The research suggests policy recommendations to address these challenges and harness the potential of MSMEs to facilitate agricultural development and rural economic growth in Indonesia.

MSMEs play a pivotal role in agricultural innovation in Indonesia, particularly through the adoption of digital technology. MSMEs, with their significant contribution to GDP, hold a strategic position in the national economy structure and agricultural sector innovation. Transformation of MSMEs through clustering, capacity building, and digitalization can enhance their role in local, national, and global supply chains. Technological innovation that aligns with the habits or culture of MSMEs can be implemented with minimal risk and immediate results, thereby promoting optimal productivity and income growth. Various innovations introduced to rural agriculture in Indonesia have significantly impacted productivity and improved market access for farmers.

AgTech organizations in Indonesia offer solutions for farmers to adopt accurate agricultural practices and use the Internet or the Internet of Things (IoT), thus increasing the efficiency of staple food production and other agricultural

products. These organizations also help establish robust marketing systems and ensure fair and open market access. Therefore, MSMEs and technological innovation drive economic growth and agricultural development in Indonesia.

The research highlights the importance of MSMEs in agricultural and rural economic development in Indonesia, as well as the challenges and opportunities that exist. This provides valuable insights for policy makers and practitioners in formulating strategies and policies to harness the potential of MSMEs in driving agricultural development and rural economic growth.

The research further identifies the challenges that MSMEs encounter in contributing to agricultural and rural economic development, such as access to finance, technology, and a complex workforce.

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