

Indonesia and Philippine MSMEs: A Comparison

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Abstract. MSMEs are critical drivers of national economic development. In Indonesia and the Philippines, these enterprises exhibit diverse profiles in terms of establishment numbers, geographic distribution, sectoral composition, and overall contribution to the economy. However, comparative analyzes addressing differences in product diversity and the extent of governmental support remain limited. This research aims to profile MSMEs in both nations by examining establishment classifications, economic contributions, sectoral challenges, and the nature of responsive government policies. Data from annual trade reports, websites, and surveys analyzed descriptively indicates that while MSMEs in both countries play a similar economic role and face comparable challenges, differences emerge in product diversity and governmental initiatives aimed at market development and product quality enhancement for international competitiveness. The study introduces an integrative analytical framework that synthesizes multiple data sources to offer nuanced comparative insights. These findings suggest that refining strategic government support—particularly in export market access, digitalization, and entrepreneurial skill development could further bolster the growth and global competitiveness of MSMEs.

Keywords: MSMEs; Indonesia; Philippines; descriptive analysis

1 Introduction

The Philippines and Indonesia are two of the rising economies in Southeast Asia. In fact, they are now considered industrialized countries by some experts and research institutions [1]. Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the economy in many countries, especially in developing countries [2]. MSMEs play an important role in creating jobs, improving people's welfare, and spurring economic growth [3]–[5]. Studies have shown that MSMEs account for 90.1% of economic growth effects [7].

MSMEs are also the major drivers in the economic output of these two nations. Indonesia and the Philippines are two countries in the ASEAN region with MSMEs which have almost the same characteristics. This sector is often the foundation of local and regional economies,

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especially in the face of global economic fluctuations. The existence of MSMEs especially in the agricultural sector contributes to the development of local economies by creating jobs and improving the well-being of rural communities. The report from OECD (2018) [8], highlights that the Indonesian government recognizes SMEs as key drivers of economic growth and social inclusion. Therefore, the roles of MSMEs are very important in supporting the Sustainable Development Goals (SDGs) for humanity and reducing poverty rates.

This study examines how important the role of MSMEs can be a key driver in sustainable rural development. According to various studies, MSMEs account for a significant portion of the Gross Domestic Product (GDP) and provide employment for a large portion of the active population in developing countries [9]. However, while the importance of MSMEs has been widely recognized, the sector also faces significant challenges [1], [2]. These challenges include limited access to financing, limited infrastructure, lack of management skills, and difficulties in adapting to technological developments and market changes [5], [10]. In the midst of increasingly competitive global economic developments, the ability of MSMEs to survive and thrive is becoming increasingly important. To understand how MSMEs can be better supported and scaled up, it is important that we explore the challenges they face [11]–[13]. Knowing these challenges can help governments, stakeholders, and businesses to design more effective policies and programs to support the MSMEs sector. Additionally, studying lessons learned from different countries that have similar economic structures and challenges can provide valuable insights [12].

Indonesia and the Philippines, two countries in Southeast Asia, offer interesting case studies on the role and challenges of MSMEs. These two countries have similar economic characteristics, with the MSMEs sector contributing greatly to the national economy. However, despite the similarities in the importance of MSMEs, the two countries face different challenges in terms of regulations, government policies, and infrastructure support. Conducting a comparative study between MSMEs in Indonesia and the Philippines will provide insight into how policies and practices in one country can be implemented or adapted in another. The comparison can also identify best practices that can help strengthen the MSMEs sector, both at the national and international levels. By understanding this comparison, it is hoped that more effective strategies can be found in supporting the growth and sustainability of MSMEs in both countries.

The study focused on the role of MSMEs in both countries, the challenges they faced, and related government policies that have been implemented to support them. Through a comparative approach, this study aimed to provide new insights into how MSMEs can be better supported and developed in Indonesia and the Philippines, as well as how the lessons learned from these comparisons can be applied in other countries facing similar challenges.

2 Methodology

This study uses a comparative descriptive approach to compare and contrast the profiles and challenges faced by MSMEs in Indonesia and the Philippines. This comparative descriptive method was chosen because it allows researchers to identify similarities and differences between MSMEs of two countries based on various key variables including the number of businesses, contribution to the national economy, geographical distribution, business sectors, and government policies and support.

2.1 Data collection

This study uses secondary data obtained from the annual reports of MSMEs from the Ministry of Trade and the Ministry of Cooperatives and SMEs in Indonesia, as well as from the Department of Trade and Industry (DTI) in the Philippines. Besides, some information was taken from surveys to MSMEs in both countries. Additional sources of data include reports from the Central Statistics Agency (BPS) in Indonesia and the Philippine Statistics Authority (PSA) in the Philippines, as well as publications from international organizations related to the development of MSMEs in both countries. Data collected included the number and classification of MSMEs (micro, small, and medium), contribution to Gross Domestic Product (GDP), geographical distribution of MSMEs, sectors dominated by MSMEs, government policies and support programs that have been implemented, also problems and challenges faced MSMEs.

2.2 Data analysis

After the data were collected, a descriptive analysis was carried out to provide an overview of the condition and role of MSMEs in both countries. This analysis includes mapping the distribution of MSMEs based on geographical regions, economic sectors, as well as the contribution of MSMEs to GDP in each country. Data on government policies and programs are also analyzed to evaluate the extent to which government initiatives have been successful in supporting the growth and sustainability of MSMEs. The next step is to conduct a comparative analysis between Indonesia and the Philippines. This comparison was conducted by evaluating the similarities and differences in structure, regulations, and challenges faced by MSMEs in both countries.

3 Results dan discussion

3.1 Number and Classification of MSMEs

MSMEs in both countries have a huge dominance in the economic structure, accounting for more than 99% of total business which dominated by micro business (Figure 1). However, there is a difference in the absolute scale. In Indonesia, the number of MSMEs reached 66 million in 2023[14] while in the Philippines this number is in the range of 1 million business units [15]. This difference reflects the economies of scale of the two countries, where Indonesia's much larger population encourages more micro and small business activities. This difference in the number of MSMEs also affects government policies and strategies in supporting the sector. For example, the large scale of MSMEs in Indonesia means that the government needs to provide broader and coordinated support across different regions.

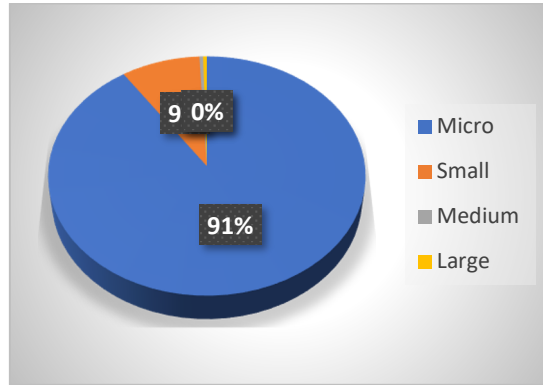


Fig. 1. MSMEs portion in percentage in both countries.

3.2 Contribution to GDP

The contribution of MSMEs to GDP in both countries is significant, but in different proportions. In Indonesia, MSMEs account for about 61% of GDP [14] while in the Philippines the figure is around 40% [15]. This difference (Figure 2) can reflect the level of diversification and economic dependence of each country on the MSMEs sector. In Indonesia, the greater role of MSMEs in GDP shows that the sector is the backbone of the economy, especially in creating jobs and driving local economic growth. In the Philippines, although MSMEs play an important role, there is an opportunity to increase their contribution to GDP by strengthening the sector through increased productivity and innovation.

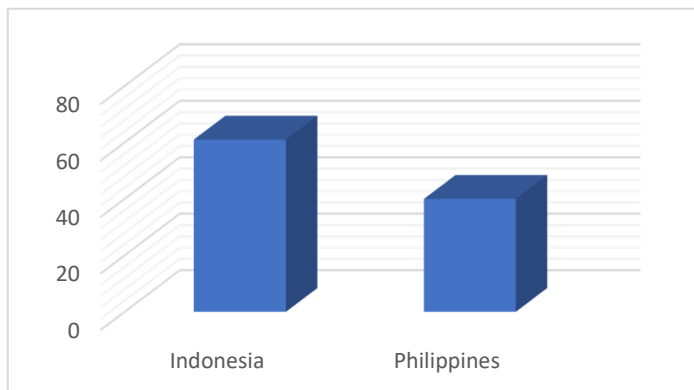


Fig. 2. Contribution of MSMEs to GDP in Percentage of both Countries.

3.3 Geographical Distribution

The geographical distribution of MSMEs in both countries shows different patterns. In Indonesia, MSMEs are mostly concentrated on the island of Java, especially in West Java, Central Java, and East Java [16]. This is natural considering that the island of Java is the

center of economic activity and has a more developed infrastructure than other regions in Indonesia. However, this concentration also indicates that there is inequality in economic distribution between regions. MSMEs outside Java may face greater challenges in terms of access to markets, infrastructure, and government support.

In the Philippines, MSMEs are mostly concentrated in the National Capital Region (NCR), Calabarzon, and Central Luzon [15], regions which are the industrial and economic center of the country. As in Indonesia, this concentration reflects better infrastructure and easier access to markets. However, it also highlights the need to expand support to other regions in the Philippines, especially in rural areas and remote islands, which often lag behind in terms of economic development.

3.4 Business Sector

The business sectors in which MSMEs operate also exhibit different characteristics in both countries. In Indonesia, the trade and agriculture sectors dominate MSMEs' activities [17]. This reflects Indonesia's economic structure which is still heavily dependent on the primary sector, especially in rural areas. However, the manufacturing and service sectors are also growing, especially in urban areas. According to [14], the major value added of MSME's come from food products (28,48) and followed by wearing apparels (11,72%), wood and products of wood and cork, except furniture, articles of straw and plaiting materials (8,92%).

In the Philippines, MSMEs operate more on the wholesale and retail trade sectors [15]. This structure reflects the Philippines' more urban orientation, thus the presence of service and light industries. Also worth noting is the focus on trade and manufacturing, which suggests that the Philippines may be more integrated with the global value chain than Indonesia, although there is still room for further improvement, especially in terms of product quality and branding for exports among the local businesses.

3.5 Problems and Challenges

The main problems faced by the MSMEs in both countries are very similar, include innovation and technology, digital literacy, productivity, legality or licensing, financing, branding and marketing, human resources, standardization and certification, equitable distribution of guidance, training and facilitation, and a single database [14]. Both countries are making various efforts to increase the role of MSMEs by involving many parties through pentahelix synergy. The pentahelix collaboration model can be applied to support the establishment of business incubators for MSMEs. In this case, institutions or institutions (universities) involve five (penta) important elements, namely academics (lecturers and students), business actors, community, government and media [18].

Currently, Kadin Indonesia and the Government of Indonesia are pushing to improve the performance of national MSMEs through a strategy of implementing digitalization to increase competitiveness, become global players and export-oriented. limited access to financing, lack of management skills, and challenges to adopting digital technologies [14]. In Indonesia, despite government initiatives to support the digitalization of MSMEs, many businesses are still struggling to integrate new technologies into their business operations. This is especially true in areas that lack access to adequate digital infrastructure. In the Philippines, similar challenges exist, with additional constraint in the form of low productivity. Although the government has introduced various programs to increase the capacity of MSMEs, many business sectors still face difficulties in obtaining adequate

support, especially in remote areas. Limited access to technology and infrastructure also slows down the ability of MSMEs in the Philippines to compete in international markets.

3.6 Government Policy and Support

Government policies in both countries reflect different approaches in supporting MSMEs. In both countries the supporting MSMEs comes not only from the government through related departments but also from the university, companies, and community. According to OECD (2018) [8] in Indonesia, many ministries operate programmes supporting MSMEs, which is good for the overall development of MSMEs but also poses a co-ordination challenge to ensure that programmes are coherent, complementary and have sufficient scale. The government of Indonesia has also undertaken important reforms in specific policy areas, such as improving the ease of doing business and enhancing access to finance for MSMEs. These efforts also suggests that these policy measures are helpful for SMEs, but still recommends placing stronger attention in the future on measures that foster firm-level productivity through increased innovation activity in SMEs, and increased participation of SMEs in global markets and global value chains.

Result from survey found that in both countries there are synergies between the government through related departments and universities to encourage MSMEs. In Indonesia, the focus implementations are to increase access to export markets by increasing the ability of entrepreneurs to innovate and standardize products, product branding, strategies for finding new customers, negotiation and communication strategies, customer service, and also financing. Indonesian government has introduced various financing schemes such as People's Business Credit (KUR) and Super Micro KUR [19]. This initiative showed a strong focus on improving access to financing, especially for micro and small businesses that often struggle to obtain capital. The program has helped many MSMEs to survive and thrive, but challenges remain in terms of equitable distribution of financing, especially in underserved areas. The financial supporting also come from CSR (Corporate Social Responsibility) program. In this program, the corporates also give MSMEs training, skills training, and business mentoring. The Government trough Bank Indonesia (BI) as central bank support the facilities in supporting MSMEs transaction. Such as updating, improving, and expanding the digitalization of payment systems through the creation of the 2030 Indonesia Payment System Blueprint (BSPI). BI also created BSPI for the next five years, from 2025 to 2030, which aims to accelerate the progress of the national digital economy for future generations.

Meanwhile, the Philippines government is focusing more on market development and improving product quality through mentoring programs, product development, and increased access to financing. The Philippine government is also more proactive in encouraging exports from the MSMEs sector, with various programs designed to help small and medium-sized enterprises penetrate international markets. This approach reflects the Philippines' more global orientation in supporting the growth of MSMEs, although there are still challenges in terms of capacity building on domestic products volume and also the competitiveness of the local products in the international market. To support the role of MSMEs, the government also build free food program for children which MSMEs becomes the main food supplier. Thus, the production volume produced by MSMEs will increase both quality and quantity. In contrast to Indonesia, the Philippine government still uses cash payments or credit cards and have not used a digital payment system like in Indonesia which already uses QRIS (Quick Response Code Indonesian Standard) which is standardized to facilitate even the smallest

transactions. This limitation is due to the limited means of communication and internet networks between regions in Philippine.

4 Conclusion

MSMEs in both countries have the same role in contributing to the national economy, its problems and challenges. However, there are differences in the diversity of products and programs. Secondary data and surveys collected showed the extent of the government's efforts to support MSMEs in market development, especially in developing product quality to penetrate international markets. Differences in government policies reflect differences in strategic priorities in supporting MSMEs to reach high levels.

In both countries there are synergies between the government through related departments, companies, and universities to encourage MSMEs. In Indonesia, the focus was on increasing access to export markets by developing the soft skill of the entrepreneurs, as well as financing and digitalization for the MSMEs. While in the Philippines, the government dominated supporting MSMEs through improving the product quality to increase the volume of domestic and export.

To improve the competitiveness of MSMEs in both countries, a more holistic strategy is needed that combines capacity building, increased access to technology, and more inclusive financing. In addition, collaboration between the government, the private sector, and educational institutions is essential to ensure that MSMEs can adapt to market changes and take advantage of opportunities in the digital era.

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