

Advancing Indonesia's UMKM: From Survival to Scalable Innovation

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Agus Setiawan*

Department of Informatics Engineering, Universitas Muhammadiyah Magelang, Magelang, Indonesia

*Corresponding author: setiawan@unimma.ac.id

Abstract

This editorial argues that Indonesia's UMKM sector conflates digitalization with advancement. Payment infrastructure has scaled fast: QRIS now covers most merchants nationwide and processes billions of transactions a year. Financial capability, market competence, operational maturity, and technology adoption stay uneven across the ecosystem. The editorial reviews 2026 conditions, where macro growth stays positive while individual businesses face tighter margins and more selective consumer spending. It proposes four capability pillars, financial and data discipline, market competence, operational maturity, and technology as an accelerator, and closes with a direct research agenda and practical guidance for UMKM owners.

Keywords: UMKM, Digital transformation, Financial inclusion, Entrepreneurship capability, IndonesiaLicense: [CC BY NC 4.0](https://creativecommons.org/licenses/by-nc/4.0/)

Indonesia's Usaha Mikro, Kecil, dan Menengah (UMKM) carry a familiar label: the backbone of the national economy. The label holds up under scrutiny. Public data consistently place the UMKM population between 64 and 66 million units, contributing roughly 61 to 62 percent of GDP and absorbing close to 97 percent of the national workforce (Direktorat Jenderal Perbendaharaan, Kementerian Keuangan Republik Indonesia, 2023; Kantor Staf Presiden Republik Indonesia, 2026).

Behind these totals sits a harder question. How many of these 65 million businesses are actually advancing? Advancing here means something specific: moving from subsistence-scale operation toward a resilient, innovative, and scalable enterprise that competes on quality, brand, and productivity, not price alone.

As editor of this journal, I want to use this space to argue a narrow but consequential point. UMKM advancement is not a digitalization slogan. It is a capability-building problem, financial, operational, and market capability, that technology can accelerate but cannot substitute for. Treat it as a technology-only agenda and the headline numbers will keep looking good while the underlying business stays fragile.

1. A payments baseline that keeps rising, and why it is not the same as advancement

Indonesia's payment rails have absorbed UMKM at real speed. Bank Indonesia reported QRIS reaching 57 million users and 39.3 million merchants by the first semester of 2025, with UMKM making up 93.16 percent of those merchants; the network processed 6.05 billion transactions worth IDR 579 trillion over that period (Bank Indonesia, 2025). The growth has not slowed. Government figures for the fourth quarter of 2025 show QRIS transaction volume among UMKM up 139.99 percent year on year, part of an ecosystem that by early 2026 counted roughly 25 million digitally integrated UMKM (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2026).

That is a genuine achievement. Digital payments generate transaction records, and those records can feed bookkeeping, credit scoring, and supply-chain digitization once institutions build the connective tissue between them. The OECD frames Indonesia's approach correctly: an integrated push across e-commerce, e-financing, and e-payment tied to the national Payment System Blueprint (OECD, 2022). But accepting a QR code is a baseline, not a destination. An advanced UMKM needs standardized processes, consistent product quality, real differentiation, working market intelligence, and unit economics that hold

up once growth arrives. None of that follows automatically from a payment terminal.

2. The gaps that keep UMKM from climbing the value ladder

Four barriers show up repeatedly across policy research and field reporting.

2.1. Financial capability and credit-readiness

Weak record-keeping and unclear unit economics, cost of goods sold, margin, cash conversion cycle, widen the information gap between a business and its potential lender. The OECD ties this directly to financing access: limited awareness of financial record-keeping feeds information asymmetry and constrains MSME lending (OECD, 2022). The scale of the problem is stark: of roughly 65 million UMKM, an estimated 44 million still cannot access formal financing, largely because banks stay cautious without collateral or a credit history (Qasir.id, 2026).

2.2. Uneven e-commerce adoption

A social media account or marketplace listing does not equal marketing effectiveness. Women's World Banking found that only 24 percent of MSMEs used e-commerce for marketing in 2021 (Women's World Banking, 2023). Even within that group, results depend on content quality, fulfillment speed, and trust signals such as reviews and guarantees, not presence alone.

2.3. Owner-dependent operations

Many UMKM run on knowledge stored in the owner's head rather than in SOPs, checklists, and quality standards anyone on the team can execute. That dependency caps how far the business can scale before it breaks.

2.4. Gender and inclusion gaps

The World Bank has documented rising numbers of women entrepreneurs using e-commerce, alongside a pandemic-era surge in MSME digital adoption, and treats closing gaps in digital finance access as central to that progress (World Bank, 2023). Advancing UMKM is a growth question and an inclusion question at the same time.

3. What 2026 looks like on the ground: growth under pressure

The macro picture for 2026 reads as stable. Household consumption and investment kept national growth in positive territory through the first quarter (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2026). The picture at the UMKM level is less comfortable. Business communities describe a year defined by caution rather than expansion: consumers keep buying, but more selectively, weighing value for money more heavily; growth runs uneven across sectors; and rising costs for raw materials, logistics, and energy squeeze margins even where sales hold steady (Dewobroto, 2026). The view emerging from these networks treats 2026 as a year that rewards efficiency and collaboration between firms over aggressive individual expansion. Government policy has moved to meet that pressure. Kredit Usaha Rakyat financing is set to expand to a ceiling of IDR 295 trillion in 2026 at 6 percent annual interest, with a larger share directed toward productive sectors rather than consumption (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2026). These are useful interventions. They do not, on their own, fix the cash-flow discipline or product differentiation that determine whether a given business survives the year.

4. An editorial framework for measurable advancement

Move the conversation past generic talk of "digitalization" and four capability pillars emerge, each with indicators an editor, researcher, or program manager can check directly. Financial and data discipline. Daily or weekly cash-flow tracking; clarity on cost of goods sold and margin; separation of personal and business finance; digital transaction records feeding into simple bookkeeping. Market competence. A defined customer segment and positioning; a product narrative backed by proof, reviews, certifications

where relevant; pricing built on bundling, tiering, and premiumization rather than a race to the bottom. Operational maturity. Written SOPs for production, packaging, service, and complaint handling; basic quality-assurance standards and inventory discipline; measurable fulfillment speed and service-level targets. Technology as accelerator, not substitute. QR payments as the entry point, with CRM and retention as the next stage; light automation for catalogs, templated responses, and reorder reminders; simple analytics on top products, repeat customers, and channel return on investment. This framing matches where policy is already heading: an ecosystem where payment, production, commerce, and financing reinforce each other rather than getting adopted as isolated tools (Bank Indonesia, 2025; Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2026; OECD, 2022).

5. An open agenda for this journal

Indonesia's UMKM landscape gives researchers in innovation, technology, and entrepreneurship a genuinely rich set of open problems. I want to name five directly for prospective contributors. Minimum viable systems for bookkeeping, pricing, and inventory that respect a micro-entrepreneur's real constraints on time, literacy, and device access. Trust and reputation mechanisms in marketplaces and social commerce that measurably lift conversion and repeat purchase without adding operational burden. The path from digital payment records to credit outcomes, and what fintech and banking partners can do to make that scoring explainable and fair. Gender-inclusive digital entrepreneurship: which product and policy designs unlock adoption, income growth, and resilience specifically for women-owned UMKM (Women's World Banking, 2023; World Bank, 2023). Upgrading pathways: how a UMKM moves from low-margin commodity output into differentiated, higher-value offerings, and which interventions actually move that needle rather than simply measuring it.

6. A closing note to UMKM owners

If you own one of these businesses and are reading this, the message is direct. Advance one capability layer at a time. Fix unit economics and cash-flow discipline first. Standardize your operations next. Invest in brand and customer retention after that. Only then put money behind acquiring new customers. Indonesia's payment infrastructure has already lowered the friction of entering the formal digital economy (Bank Indonesia, 2025). What determines whether you advance from there is capability, not the tools sitting on your phone.

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