

Contribution Of MSMEs In Poverty Alleviation In Indonesia

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Abstract: Poverty remains a fundamental challenge in Indonesia's economic development despite a decline in recent years. Poverty is not only related to low income, but also limited access to jobs, education, health, productive assets, financing, markets, technology, and basic services. In this context, Micro, Small, and Medium Enterprises (MSMEs) have a strategic role because they are the majority of business units as well as the largest absorbers of labor. This article aims to analyze the contribution of MSMEs to poverty reduction in Indonesia by 2026, identify the challenges faced, and examine the role of government policies in strengthening MSMEs as an instrument of inclusive development. The research uses a qualitative descriptive approach through literature studies and secondary data analysis from BPS, the Coordinating Ministry for Economic Affairs, and academic literature. The results of the study show that Indonesia's poverty rate in March 2026 will reach 8.07 percent or 22.93 million people. MSMEs contribute around 61 percent to GDP and absorb 97 percent of the workforce. KUR disbursements until June 28, 2026 reach IDR 147.70 trillion to 2.32 million debtors. However, financing needs to be integrated with digitalization, capacity building, market access, formalization, innovation, and assistance to increase productivity, income, and economic resilience of the poor and vulnerable.

Keywords: MSMEs, poverty reduction, economic empowerment, KUR, inclusive economy, Indonesia 2026.

Abstrak: Kemiskinan tetap menjadi tantangan mendasar dalam pembangunan ekonomi Indonesia meskipun mengalami penurunan dalam beberapa tahun terakhir. Kemiskinan tidak hanya berkaitan dengan rendahnya pendapatan, tetapi juga keterbatasan akses terhadap pekerjaan, pendidikan, kesehatan, aset produktif, pembiayaan, pasar, teknologi, dan layanan dasar. Dalam konteks tersebut, Usaha Mikro, Kecil, dan Menengah (UMKM) memiliki peran strategis karena menjadi mayoritas unit usaha sekaligus penyerap tenaga kerja terbesar. Artikel ini bertujuan menganalisis kontribusi UMKM terhadap pengurangan kemiskinan di Indonesia pada 2026, mengidentifikasi tantangan yang dihadapi, serta mengkaji peran kebijakan pemerintah dalam memperkuat UMKM sebagai instrumen pembangunan inklusif. Penelitian menggunakan pendekatan deskriptif kualitatif melalui studi pustaka dan analisis data sekunder dari BPS,

Kementerian Koordinator Bidang Perekonomian, serta literatur akademik. Hasil penelitian menunjukkan bahwa tingkat kemiskinan Indonesia pada Maret 2026 mencapai 8,07 persen atau 22,93 juta orang. UMKM berkontribusi sekitar 61 persen terhadap PDB dan menyerap 97 persen tenaga kerja. Penyaluran KUR hingga 28 Juni 2026 mencapai Rp147,70 triliun kepada 2,32 juta debitur. Namun, pembiayaan perlu diintegrasikan dengan digitalisasi, peningkatan kapasitas, akses pasar, formalisasi, inovasi, dan pendampingan untuk meningkatkan produktivitas, pendapatan, serta ketahanan ekonomi masyarakat miskin dan rentan.

Kata Kunci: *UMKM, pengurangan kemiskinan, pemberdayaan ekonomi, KUR, ekonomi inklusif, Indonesia 2026.*

A. Introduction

Poverty is a multidimensional economic and social problem that continues to be an important concern in Indonesia. Poverty cannot be understood solely as the inability of individuals to meet their basic needs, but is also related to limited access to education, health, employment, housing, public services, and opportunities to participate in economic and social life. This perspective remains relevant in the context of contemporary Indonesia.

The development of Indonesia's economy over the past two decades has produced significant changes in the poverty situation. Based on the latest data released by Statistics Indonesia (BPS), the percentage of Indonesia's population living in poverty in March 2026 was 8.07 percent, equivalent to 22.93 million people. This figure decreased by 0.18 percentage points compared with September 2025 and by 0.40 percentage points compared with March 2025. Although the trend indicates improvement, the remaining number of poor people demonstrates that poverty reduction remains a major development agenda¹.

The poverty problem also has a significant spatial dimension. In March 2026, the poverty rate in urban areas was 6.34 percent, while in rural areas it reached 10.67 percent. The higher poverty rate in rural areas demonstrates that economic development and productive opportunities have not yet been distributed evenly across regions. Rural communities frequently depend on micro-scale businesses, agriculture, trade, fisheries, services, and other informal economic activities. Consequently, strengthening productive economic activities at the community level is an important strategy for reducing poverty.

The latest poverty-line data also demonstrate that household purchasing power remains an important issue. In March 2026, Indonesia's poverty line was recorded at

¹ BPS, "In March 2026, the Percentage of the Poor Population Decreased to 8.07 Percent. - BPS-Statistics Indonesia," accessed August 10, 2026, <https://www.bps.go.id/en/pressrelease/2026/08/05/2594/in-march-2026--the-percentage-of-the-poor-population-decreased-to-8-07--percent.html>.

Rp669,235 per capita per month, consisting of a food poverty line of Rp499,886 or 74.70 percent and a non-food poverty line of Rp169,349 or 25.30 percent.²

The situation demonstrates that poverty reduction cannot depend solely on direct social assistance. Social protection remains important for protecting vulnerable households, but sustainable poverty reduction requires productive economic empowerment. In the contemporary economic environment, the strategic role of MSMEs has become even more significant.³ Government data in 2026 indicate that MSMEs contribute approximately 61 percent of national GDP, absorb around 97 percent of the workforce, account for approximately 60 percent of national investment, and contribute around 16 percent of non-oil and gas exports⁴.

These figures indicate that MSMEs are not merely small-scale economic activities but constitute a fundamental component of Indonesia's economic structure. Their capacity to absorb labor makes MSMEs particularly relevant to poverty reduction because employment and business opportunities can increase household income and reduce economic vulnerability. However, the large contribution of MSMEs does not mean that the sector is free from structural problems. MSMEs continue to face constraints in access to financing, human-resource quality, managerial capacity, technology, market access, business legality, digital transformation, innovation, and integration into larger supply chains. BPS's publication on Micro and Small Industries also identifies limitations related

² antaranews.com, "Nearly All Indonesian Regions Record Decline in Poverty: BPS," Antara News, August 5, 2026, <https://en.antaranews.com/news/425713/nearly-all-indonesian-regions-record-decline-in-poverty-bps>.

³ Nursini Nursini, "Micro, Small, and Medium Enterprises (MSMEs) and Poverty Reduction: Empirical Evidence from Indonesia," *Development Studies Research* 7, no. 1 (2020): 153–66, <https://doi.org/10.1080/21665095.2020.1823238>.

⁴ Office of Assistant to Deputy Cabinet Secretary for State Documents &. Translation, "Gov't to Maintain MSMEs' Role as Economic Backbone," *Sekretariat Kabinet Republik Indonesia*, August 24, 2022, <https://setkab.go.id/en/govt-to-maintain-msmes-role-as-economic-backbone/>.

to access and capital, human resources and management, and legal aspects as continuing challenges.⁵

Financing remains one of the most important issues. In 2026, the Government continues to strengthen productive financing through KUR and other credit programs. The Government set a 2026 target for KUR distribution of Rp295 trillion, while broader government credit programs were targeted at up to Rp332 trillion. As of 28 June 2026, KUR distribution had reached Rp147.70 trillion for 2.32 million debtors, equivalent to 50.83 percent of the 2026 target. This development demonstrates that financing policy remains an important component of MSME empowerment.⁶

Nevertheless, poverty reduction through MSMEs should not be reduced to providing loans. Financing without adequate managerial capability, market access, technology, mentoring, and business planning may not generate sustainable increases in income. Therefore, the policy approach needs to shift from simply increasing the number of MSMEs toward strengthening MSME productivity, resilience, competitiveness, and upward mobility.⁷

The important urgency of MSMEs in poverty alleviation has been stated in several previous studies. Nursini⁸ in her study stated In general, the results show that MSMEs statistically affect poverty reduction in Indonesia both directly and indirectly. Nevertheless, different business scales offer various implications for poverty reduction. In line with nursini, Tulus⁹ found MSMEs play a vital role in the economic development of all countries in the world. Especially in developing and least developed countries, as they are

⁵ PM Mutisya, "Contributions of Small and Medium Enterprises (SMEs) toward Achievement of Sustainable Development Goals in Kenya: A Systematic Review of Literature," *International Conference on Current Business Issues in ...*, no. Query date: 2026-09-16 18:00:23 (2023), https://doi.org/10.1007/978-3-031-56007-1_11.

⁶ UMKM Kementrian, "Realisasi KUR 2026 Tembus Rp 169 Triliun, Jangkau 2,65 Juta Debitur UMKM," accessed August 10, 2026, <https://umkm.go.id/news/p17nggnvalxie45o80xevmkm>.

⁷ Tulus Tambunan, "Sustainable Development Goals and the Role of MSMEs in Indonesia," SSRN Scholarly Paper no. 4651691 (Social Science Research Network, May 10, 2023), <https://papers.ssrn.com/abstract=4651691>.

⁸ Nursini, "Micro, Small, and Medium Enterprises (MSMEs) and Poverty Reduction."

⁹ Tambunan, "Sustainable Development Goals and the Role of MSMEs in Indonesia."

the majority of enterprises, MSMEs have a crucial role to play because of their potential contributions to poverty reduction, improvement of the income distribution, employment creation, industrial development, rural development, GDP growth, and export diversification and growth. They also provide business opportunities to women, unemployed, and less educated youths.

Based on this background, this article aims to analyze the role of MSMEs in poverty reduction in Indonesia in the context of 2026, examine the relationship between MSME empowerment and poverty reduction, identify the major constraints facing MSMEs, and formulate policy directions for strengthening MSMEs as an instrument of inclusive and sustainable economic development.

B. Literature Review

Poverty as a Multidimensional Problem

Poverty is traditionally associated with insufficient income to fulfill basic needs. However, contemporary approaches view poverty as a multidimensional phenomenon involving economic, social, institutional, and human-capital dimensions. Poverty involves limitations in fulfilling basic rights, including food, health, education, employment, housing, clean water, environmental quality, security, and participation in social life.¹⁰

Therefore, poverty reduction requires policies that increase not only household income but also people's access to productive assets and basic services. From the perspective of BPS, monetary poverty is measured through the poverty line. The poverty line consists of the Food Poverty Line and the Non-Food Poverty Line. In March 2026, the national poverty line was Rp669,235 per capita per month. The measurement demonstrates that poverty is closely connected to household purchasing power.

¹⁰ C. Harvie, "Micro-, Small-and Medium-Sized Enterprises (MSMEs): Challenges, Opportunities and Sustainability in East Asia," *Trade Logistics in Landlocked and Resource Cursed ...*, no. Query date: 2026-09-16 18:00:23 (2019), https://doi.org/10.1007/978-981-13-6814-1_7.

Consequently, policies that increase employment, productivity, and sustainable income are important components of poverty reduction.¹¹

Micro, Small, and Medium Enterprises

MSMEs are economic activities conducted by individuals, households, or business entities that meet the criteria established by Indonesian legislation. The sector is characterized by relatively small business scale, intensive use of local resources, flexible business structures, and significant involvement of household labor. The importance of MSMEs in Indonesia is reflected in their economic contribution. In 2026, government data indicate that MSMEs account for approximately 61 percent of GDP and absorb 97 percent of national employment.

The role of MSMEs can therefore be viewed from at least four dimensions:¹²

1. employment creation;
2. household income generation;
3. local economic development; and
4. distribution of economic opportunities.

These characteristics make MSMEs highly relevant as an instrument for reducing poverty.

MSMEs and Poverty Reduction

The relationship between MSMEs and poverty reduction can be explained through the income-generation mechanism. When individuals establish or develop a productive business, they obtain an opportunity to generate income. When the business expands, it can employ additional workers and create indirect economic opportunities through suppliers, distributors, and service providers. In the 2026 context, this relationship

¹¹ BPS, "In March 2026, the Percentage of the Poor Population Decreased to 8.07 Percent. - BPS-Statistics Indonesia."

¹² S. Sunaryono et al., "Analyzing the Impact: The Role of MSME Growth in Reducing Unemployment Amidst High Levels of Poverty," ... (*Asian Journal of ...*, no. Query date: 2026-09-16 18:00:23 (2024), <https://www.ajarcde-safe-network.org/index.php/index.php/ajarcde/article/view/417>.

becomes more complex. Digital technology allows MSMEs to access broader markets, electronic payments, digital marketing, online marketplaces, financial technology, and business information. Therefore, digital transformation can potentially increase productivity and market access. However, digitalization must be accompanied by digital literacy, financial literacy, product quality improvement, and appropriate business management.¹³

Access to Financing

Limited access to financing has historically been one of the major obstacles faced by MSMEs. Limited access to banking institutions and the inability of some MSMEs to meet formal financing requirements as significant constraints. The problem remains relevant today, although the financing ecosystem has become more developed. Government programs such as KUR provide subsidized financing to productive businesses¹⁴.

In 2026, the Government continued to strengthen the KUR system. The policy direction includes productive-sector financing and broader access to financing for micro and small enterprises. The 2026 KUR framework maintains affordable rates, including 3 percent effective per year for KUR Super Mikro and 6 percent effective per year for KUR Mikro and KUR Kecil in productive sectors and export-oriented trade. Thus, financing policy has developed from the simple provision of credit toward the development of an integrated financing ecosystem.¹⁵

MSME Empowerment

MSME empowerment should be understood as a process of increasing the capacity of business actors to become more productive, independent, resilient, and competitive. several

¹³ TW Ayuni et al., "Business Performance Model of Micro, Small and Medium Enterprises (Msmes) In Reducing Poverty Rates," ... *Journal on Social ...*, no. Query date: 2026-09-16 18:00:23 (2025), <https://ijosea.isha.or.id/index.php/ijosea/article/view/780>.

¹⁴ A. Rifa'i and D. Purwiharyono, "Business Scale and Poverty Reduction: Empirical Evidence from Indonesia's MSMEs," *Journal of the International Council for ...*, no. Query date: 2026-09-16 18:00:23 (2026), <https://doi.org/10.1080/26437015.2026.2668533>.

¹⁵ Kementrian, "Realisasi KUR 2026 Tembus Rp 169 Triliun, Jangkau 2,65 Juta Debitur UMKM."

important forms of empowerment, including: Creating a conducive business climate; Developing guarantee mechanisms; Providing technical and managerial assistance; and Expanding access to financial institutions. In the 2026 context, these approaches need to be expanded to include: digital transformation; business legality and formalization; financial literacy; halal certification where relevant; market access; product innovation; quality standards; business networking; integration into supply chains; export readiness; and sustainable business practices.¹⁶

C. Research Methods

This study employs a qualitative descriptive approach using a literature review and secondary-data analysis. Secondary data were obtained from official publications, particularly Statistics Indonesia (BPS) and the Coordinating Ministry for Economic Affairs. The principal data include the poverty profile for March 2026 and information concerning MSME contributions and government financing programs. The analysis was conducted through four stages: Identification of the main concepts, including poverty, MSMEs, empowerment, financing, and economic development. Updating of empirical data, particularly poverty and MSME-related indicators relevant to 2026. Comparative analysis between the problems identified the conditions faced by MSMEs in 2026. Interpretative analysis to identify how MSME empowerment can contribute to sustainable poverty reduction. This research is not designed to statistically estimate a causal relationship between MSME development and poverty reduction. Instead, it seeks to provide an analytical explanation of the strategic role of MSMEs based on available secondary data and policy developments

¹⁶ SN Mayanja, "An Inquiry into the Relationship between Liquidity Management and Profitability of MSMEs as Tools of Poverty Alleviation," *Editorial Team*, no. Query date: 2026-09-16 18:00:23 (2015), https://www.researchgate.net/profile/Akram-Wiardi/publication/362112984_The_Perspective_of_Business_Strategy_and_Sustainability_of_Micro_Small_and_Medium_Enterprises_MSMEs_Resilience_During_COVID-19_Pandemic/links/62d70de285824c670f58e18b/The-Perspective-of-Business-Strategy-and-Sustainability-of-Micro-Small-and-Medium-Enterprises-MSMEs-Resilience-During-COVID-19-Pandemic.pdf#page=84.

D. Results and Discussion

Development of Poverty Conditions in Indonesia in 2026

Indonesia's poverty situation has improved compared with previous periods. BPS reported that in March 2026 the national poverty rate declined to 8.07 percent, with 22.93 million people classified as poor. Compared with March 2025, the number of poor people declined by approximately 0.92 million¹⁷.

This improvement indicates that economic growth, social protection, employment opportunities, and government interventions have contributed to poverty reduction. Nevertheless, 22.93 million poor people remain a substantial number, meaning that poverty reduction continues to require long-term and multidimensional intervention. The urban-rural gap is particularly important. The poverty rate in rural areas was 10.67 percent, considerably higher than the urban rate of 6.34 percent. This situation strengthens the argument that MSME development should be integrated with regional development, especially in rural and semi-urban areas¹⁸.

Strategic Position of MSMEs in the Indonesian Economy.

The contribution of MSMEs to Indonesia's economy is substantial. Government information in 2026 indicates that MSMEs contribute around 61 percent of GDP and absorb approximately 97 percent of the national workforce. MSMEs also account for around 60 percent of national investment and approximately 16 percent of non-oil and gas exports. These figures have important implications for poverty reduction.

First, the high level of labor absorption indicates that MSMEs function as an employment buffer. People who have difficulty entering the formal labor market can participate in micro and small businesses. Second, MSMEs distribute economic activity

¹⁷ "Poverty Falls, but the Line Is Too Low, Economists Say - Economy - The Jakarta Post," accessed September 17, 2026, <https://www.thejakartapost.com/business/2026/08/07/poverty-falls-but-the-line-is-too-low-economists-say>.

¹⁸ "Joint Statement BPS-WB on Indonesia's Poverty Figures," accessed September 17, 2026, <https://www.worldbank.org/en/news/statement/2026/09/09/joint-statement-bps-wb-on-indonesia-poverty-figures>.

geographically. Unlike large corporations that tend to concentrate in particular industrial or urban centers, micro and small businesses are present in communities, villages, traditional markets, neighborhoods, and local service sectors. Third, MSMEs can become a mechanism for household economic transformation. A household that initially depends on irregular income can potentially develop a more stable income source through productive business activities. Thus, MSMEs can act as an economic bridge between poverty and economic independence¹⁹.

Financing as an Instrument of MSME Empowerment

One of the most significant developments in Indonesia's MSME financing landscape is the expansion of access to formal financing through government-supported programs. During the early implementation of KUR in 2007–2008, MSMEs faced substantial barriers to accessing formal financing, including limited access to financial institutions, stringent lending requirements, inadequate collateral, and insufficient financial documentation. At that stage, KUR was still a relatively new government financing program. By 2026, KUR had developed into a major instrument of government economic policy aimed at strengthening MSME access to productive financing. The Government established a KUR distribution target of IDR 295 trillion for 2026. As of June 28, 2026, KUR distribution had reached IDR 147.70 trillion, benefiting approximately 2.32 million debtors, equivalent to 50.83 percent of the annual target.

The expansion of KUR demonstrates substantial progress in improving MSMEs' access to formal financing. Nevertheless, access to credit alone is not sufficient to ensure sustainable business development or poverty reduction. Financing is more likely to generate positive economic outcomes when it is allocated to productive activities that can increase income and strengthen business capacity. Therefore, KUR implementation should ideally be supported by business planning, financial management, production assistance,

¹⁹ M. Cosa, "Can MSMEs Foster Inclusive Growth? Evidence from Poverty and Inequality Dynamics in Latin America and the Caribbean," *Corporate Social Responsibility and Environmental ...*, no. Query date: 2026-09-16 18:00:23 (2025), <https://doi.org/10.1002/csr.70138>.

marketing support, digitalization, business mentoring, market linkages, and regular monitoring of business performance. This approach places financing within an integrated MSME development ecosystem, where access to credit is complemented by capacity building, market access, technological adoption, and continuous institutional support²⁰.

Digitalization and MSME Competitiveness

MSME development focused heavily on physical access to credit, managerial assistance, infrastructure, and conventional markets. In 2026, MSMEs face a different competitive environment. Digital platforms provide opportunities to sell products beyond local markets, use electronic payments, conduct digital marketing, manage customer relationships, and access online financial services. Digitalization can therefore strengthen the poverty-reduction function of MSMEs through several mechanisms: expanding market reach; reducing transaction costs; increasing consumer access; improving business information; facilitating digital payments; supporting financial records; and creating new business models. Nevertheless, digitalization can also create inequality when business actors lack digital literacy, capital, infrastructure, or technological capabilities. Therefore, digital transformation must be accompanied by capacity building²¹.

The Continuing Problem of Human Resources and Management

Access to capital is not sufficient to ensure MSME success. Many MSMEs continue to operate with limited accounting systems, weak business planning, inadequate separation between household and business finances, limited human-resource development, and low capacity for market analysis. BPS's profile of Micro and Small Industries confirms that limitations related to capital, human resources and management, and legal aspects remain important challenges.

²⁰ EGS Félix, "Microcredit: MSMEs and Sustainable Development," *The Palgrave Handbook of Global Sustainability*, no. Query date: 2026-09-16 18:00:23 (2022), https://doi.org/10.1007/978-3-030-38948-2_116-1.

²¹ HKA Zaakiyyah and D. Kristanti, "Community Service and MSME Strengthening Based on Green Economy, Business Digitalization, and Financial Literacy in Supporting Sustainable Poverty Alleviation," *Jurnal ...*, no. Query date: 2026-09-16 18:00:23 (2026), <https://journal.literasisainsnusantara.com/index.php/tirakat/article/view/335>.

This finding is consistent which emphasized the need for technical assistance, management training, financial consultants, and stronger institutional support. Therefore, the 2026 MSME empowerment model should emphasize the principle: financing, mentoring, digitalization, market access, institutional strengthening. Without this integration, financing may increase business debt without necessarily improving welfare²².

MSMEs as an Instrument for Rural Poverty Reduction

The higher rural poverty rate in March 2026 strengthens the argument for prioritizing MSME development in rural areas. BPS recorded rural poverty at 10.67 percent, compared with 6.34 percent in urban areas. Rural MSMEs can be developed through local economic potential, including: agriculture and agro-processing; fisheries; livestock; food processing; handicrafts; tourism; village-based services; halal products; and creative industries.

The objective should not merely be to create more micro-enterprises, but to increase the productivity and value added of existing businesses. For example, agricultural producers should not remain dependent solely on selling raw commodities. MSME empowerment can encourage processing, packaging, branding, certification, digital marketing, and market integration so that more value is retained at the local level. This strategy can increase local income and create additional employment²³.

From Social Assistance to Productive Empowerment

Poverty reduction policies that rely primarily on temporary or reactive interventions may provide immediate assistance but are often insufficient to address the structural causes of poverty. In 2026, productive economic empowerment through MSME development remains an important component of poverty reduction strategies, particularly through

²² M. Majid et al., "Entrepreneurial Productivity and Poverty Reduction: Human Development and Economic Growth as Sequential Transmission Mechanisms," *SN Business & ...*, no. Query date: 2026-09-16 18:00:23 (2026), <https://doi.org/10.1007/s43546-026-01155-z>.

²³ B. Utami et al., "The Role of Digital Marketing Strategies in Alleviating Poverty among MSMEs in Rural Areas and Their Contribution to SDGs (1) and SDGs (8)," *Ekonomi Bisnis*, no. Query date: 2026-09-16 18:00:23 (2026), <https://journal-fe.um.ac.id/index.php/ekobis/article/view/833>.

improving access to finance, strengthening business capacity, expanding market opportunities, enhancing digital adoption, and increasing the productivity and resilience of small businesses. However, the policy environment has become increasingly complex, requiring more integrated and sustainable approaches to address the diverse challenges faced by low-income households and MSMEs. Social assistance is necessary because extremely poor and vulnerable households may lack sufficient assets to immediately participate in productive economic activities. However, social assistance should ideally be connected to empowerment programs.

A sustainable poverty-reduction model can therefore be formulated as: Social Protection. Productive Inclusion. MSME Empowerment. Increased Income, Employment Creation, Improved Household Welfare. The model indicates that poverty reduction should combine protection against economic shocks with opportunities to increase productive capacity.

Strengthening the MSME Policy Ecosystem in 2026

Based on the analysis, at least seven policy areas require strengthening. *Expanding Inclusive Financing.* Financing should be accessible to feasible micro and small enterprises that have limited collateral or formal financial records. KUR and other financing schemes should continue to expand while maintaining responsible lending principles. *Strengthening Business Mentoring.* Financing should be accompanied by professional mentoring. Mentoring should cover accounting, financial planning, taxation, marketing, human resources, production, and business strategy²⁴. *Accelerating Digital Transformation.* Government programs should facilitate digital literacy, digital marketing, electronic payments, digital bookkeeping, and access to digital marketplaces. *Improving Market Access*²⁵. MSMEs need access to government procurement, corporate supply chains²⁶,

²⁴ Nenden Restu Hidayah and Mia Margareta Huta Galung, *Pelatihan Penyusunan Laporan Keuangan Berbasis Digital Pada Usaha Umkm Pabrik Kerupuk Dua Putra Bengkulu* (2023), <https://doi.org/10.37676/jdm.v2i2.4734>.

²⁵ Sri Maitri Wayan et al., *Technology Utilization and Poverty Alleviation: The Critical Moderating Role of Entrepreneurial Capability Among MSMEs* (2025), <https://doi.org/10.47153/jbmr.v6i4.1586>.

modern retail, tourism markets, export markets, and digital marketplaces. *Strengthening Business Formalization.* Business legality, licensing, tax administration, product standards, intellectual property, and relevant certification should be simplified and accompanied by assistance. *Developing Local Economic Clusters.* MSMEs with similar products or local resources can be organized into clusters to improve economies of scale, quality, branding, purchasing power, and market access. *Integrating MSMEs with Poverty-Reduction Programs.* The identification of poor and vulnerable households should be connected with productive empowerment programs where appropriate²⁷. This allows poverty reduction to move from a purely consumption-oriented approach toward a productive and sustainable approach. *Conceptual Model of MSME-Based Poverty Reduction in 2026.* Based on the discussion, the role of MSMEs in poverty reduction can be conceptualized as follows:

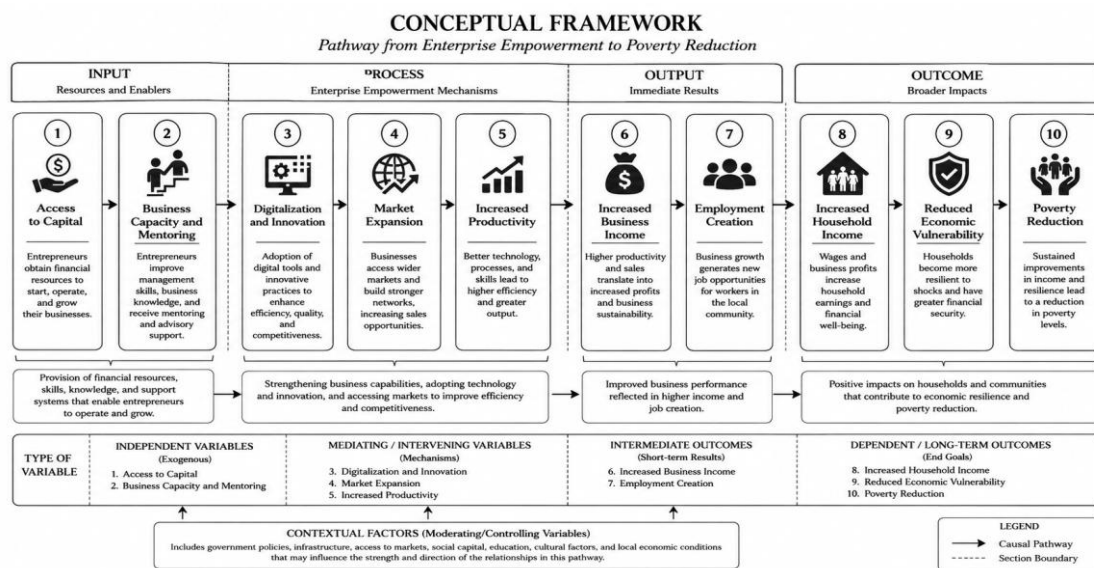


Figure I: Conceptual framework

²⁶ T. Wajebo, *MICRO, SMALL AND MEDIUM ENTERPRISES ACCESS TO FINANCE CHALLENGES IN SUPPLY SIDE PERSPECTIVE IN ETHIOPIA* (2022), <https://doi.org/10.46281/ijsmes.v5i1.1808>.

²⁷ Wahyudi Wahyudi and Herman Herman, *The Role of Micro, Small, and Medium Enterprises (MSMEs) in Poverty Alleviation in Indonesia: A Systematic Literature Review* (2026), <https://doi.org/10.20527/kss.v7i2.17983>.

The model demonstrates that financing is an important starting point but not the sole determinant of poverty reduction. The final impact depends on whether financing is transformed into productive capacity, higher productivity, expanded markets, and sustainable income.

E. Conclusion

Poverty remains an important development challenge for Indonesia in 2026 despite the continuing decline in the national poverty rate. BPS recorded a poverty rate of 8.07 percent in March 2026, equivalent to 22.93 million people. The rural poverty rate of 10.67 percent, which remains substantially higher than the urban rate of 6.34 percent, indicates that equitable economic development remains an important policy challenge. MSMEs have a strategic role in addressing this challenge. With a contribution of approximately 61 percent to GDP and absorption of around 97 percent of the workforce, MSMEs constitute one of the most important instruments for inclusive economic development in Indonesia. The development of MSME policies over time has demonstrated substantial progress, particularly in expanding access to financing. The Kredit Usaha Rakyat (KUR), initially introduced as a government-supported financing scheme, has evolved into one of the government's key instruments for supporting MSME financing. As of June 28, 2026, KUR distribution had reached IDR 147.70 trillion, benefiting approximately 2.32 million debtors. However, financing alone cannot guarantee poverty reduction. MSME empowerment must be implemented through an integrated approach that combines financing, mentoring, digitalization, innovation, market access, business formalization, human-resource development, and institutional strengthening. Therefore, the strategic orientation of MSME policy in 2026 should shift from merely increasing the number of MSMEs toward increasing the productivity, income, resilience, and competitiveness of MSMEs. In the context of poverty reduction, the most important objective is not simply to create more businesses but to ensure that poor and vulnerable communities can participate in productive economic activities, obtain sustainable income, create employment, and gradually become economically independent. Thus, MSMEs can

function as an effective instrument of poverty reduction when government policy is implemented not merely as a financing program but as an integrated productive empowerment ecosystem. The synergy between government, financial institutions, local governments, universities, private companies, communities, digital platforms, and MSME associations is essential to ensure that MSMEs become a stronger foundation for inclusive and sustainable economic growth in Indonesia

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