



Collaborative Governance: Strategies for Addressing Challenges and Opportunities in MSME Development

Afrijal*, Nadia, Raihan Rahma Hanina, Helmi, Nurul Kamaly

Universitas Syiah Kuala

DOI:

<https://doi.org/10.47134/par.v3i1.5039>

*Correspondence: Afrijal

Email: afrijal@usk.ac.id

Received: 28-09-2025

Accepted: 15-10-2025

Published: 07-11-2025



Copyright: © 2025 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

active cross-sector participation aimed at building trust and commitment to MSME empowerment and development. Collaboration thus becomes the key to delivering comprehensive, adaptive, and needs-based solutions for business actors. This multi-sectoral synergy represents a concrete step toward governance reform that is more open and responsive to MSME development, ultimately leading to the creation of globally competitive MSMEs.

Abstract: This study focuses on Collaborative Governance in Addressing the Challenges and Opportunities of MSME Development. The development of MSMEs in Indonesia often faces various obstacles, including limited business networks and opportunities, a constrained business environment, difficulties in accessing global markets, inadequate human resource capacity, insufficient business coaching, low digital literacy, and other structural barriers. These challenges require serious attention from the government to enhance the role of MSMEs as a key driver in realizing community-based economic independence. The purpose of this study is to examine and analyze government strategies for MSME development through multi-stakeholder engagement. The research employs a literature study method using both primary and secondary data obtained from journals, books, documentation, and other relevant scholarly sources aligned with the research topic. The findings suggest that a collaborative governance approach provides innovative and solution-oriented perspectives for accelerating the development of MSMEs. This is because the involvement of multiple stakeholders—such as government, private sector, communities, and other related actors—can foster a cross-sectoral collaborative ecosystem that is inclusive and sustainable. The success of MSMEs should not only be assessed through the existence of regulations and governmental involvement, but also through

Keywords: Collaborative Governance, Strategic, MSME Development

Introduction

The contribution of Micro, Small, and Medium Enterprises (MSMEs) to Indonesia's Gross Domestic Product (GDP) represents one of the most crucial aspects of the nation's economic development (Yolanda & Hasanah, 2024). The role of MSMEs is highly significant in fostering and expanding business activities that support national economic growth. Consequently, the advancement of enterprises in the MSME sector is essential for enhancing the equitable welfare of the Indonesian population (Ramadani et al., 2025). As a vital pillar of Indonesia's economy, the number of MSMEs, according to the Ministry of Cooperatives and MSMEs, has reached 64.2 million, contributing approximately 61.07% to the GDP. This economic contribution also includes employment absorption of up to 97% of the total workforce in Indonesia (Novitasari, 2022; Kementerian Keuangan, 2022). Therefore, MSMEs are often regarded as the core of Indonesia's economy due to their substantial role in economic growth, job creation, and the equitable distribution of development across regions.

MSMEs play a crucial and vital role in national development, particularly in economic development across various countries, especially in Indonesia. They serve primarily as the main drivers of economic growth and as a major source of employment opportunities (Kiswandi et al., 2023). The significant potential of Micro, Small, and Medium Enterprises (MSMEs) positions this sector as a key driver in realizing national economic self-reliance and enhancing the nation's competitiveness amidst the dynamics of global economic transformation. MSMEs play a pivotal role in maintaining national economic stability, particularly during periods of crisis such as the COVID-19 pandemic. Despite the severe impact caused by restrictions on economic activities, MSMEs have demonstrated exceptional adaptability. Their ability to adjust business strategies, develop innovative products, and align with government policies has become a core strength that enables them to remain resilient in the face of adversity. This resilience has firmly established MSMEs as one of the primary pillars supporting the national economy during challenging times. (UNDP Indonesia, 2021). However, the MSME sector still faces a number of fundamental issues that hinder its growth.

According to Koncoro as cited in Hanasi (2023), Micro, Small, and Medium Enterprises (MSMEs) face fundamental challenges such as limited access to market opportunities, weak capital structures, obstacles in organizational and human resource management, restricted business networks, an unsupportive business climate, and a lack of integrated development programs. These issues have a significant impact on the ability of MSMEs to compete globally. Limited access to financing makes it difficult for many MSME actors to expand their businesses, while the insufficient use of technology reduces efficiency and competitiveness. Furthermore, the low quality of human resources poses a constraint on fostering innovation and improving business management, which in turn hampers the sector's potential growth in the international market (Akbar, 2024; OECD, 2022).

The limited level of digital proficiency among micro, small, and medium enterprises (MSMEs) has further intensified the digital divide between large and small firms. A considerable number of MSME actors have yet to fully leverage digital technologies that could significantly enhance their operational efficiency and competitiveness. Evidence from the Asian Development Bank (2020) reveals that only around 34% of MSMEs in Southeast Asia are able to effectively integrate digital technologies into their business operations. This finding underscores the persistent lag in technological adoption among MSMEs, despite the vast opportunities that digitalization presents for market expansion, productivity improvement, and broader access to information (ADB, 2020).

Micro, small, and medium enterprises (MSMEs) continue to face significant challenges, particularly in gaining access to broader markets at both national and international levels. Several underlying factors contribute to this limitation, including underdeveloped distribution networks, inadequate logistical infrastructure, and insufficient capability to leverage digital marketing effectively. Such constraints impede the ability of MSMEs to expand their operations or even to maintain business sustainability amid the intensifying global competition. Moreover, restricted access to international markets limits their opportunities for business expansion and network development, both

of which are crucial for strengthening their competitiveness in the global marketplace. (World Bank, 2021).

Although the government has made efforts to empower micro, small, and medium enterprises (MSMEs) through various regulations and support programs, the outcomes have not yet been optimal. One of the main issues lies in the fragmentation of policies across different relevant institutions, which are often conflicting and poorly coordinated. The misalignment between central and local government policies, as well as among various agencies, frequently results in programs that are intended to benefit MSMEs being implemented inefficiently. This situation hinders more focused and integrated empowerment initiatives for MSMEs, even though this sector urgently requires better coordination to enhance its competitiveness and business sustainability (Saputra, 2015). In this context, it is crucial to adopt a new approach that prioritizes synergy and collaboration among the various stakeholders involved, commonly referred to as *collaborative governance*. This approach emphasizes the active engagement of all stakeholders—including the government, the private sector, civil society, and academia—in the decision-making process related to public policy. The intersectoral cooperation that emerges from this approach is expected to produce policies that are more inclusive, transparent, and responsive to the needs and aspirations of the community (Ansell dan Gash, 2008). This approach is expected to enhance the effectiveness in addressing increasingly complex public issues.

Collaborative governance has increasingly been acknowledged as a viable approach to addressing the growing complexity of public problems that can no longer be managed solely by government actors. Addressing such challenges requires the active engagement of multiple sectors—public, private, and civil society—to generate more comprehensive and sustainable solutions. Moreover, collaboration must extend across different levels of government, from national to local, to ensure that policy responses are both contextually relevant and effectively implemented. This governance approach facilitates the inclusion of diverse stakeholders in decision-making processes, thereby enhancing policy legitimacy and improving the alignment of public policies with societal needs (Emerson dan Nabatchi, 2015).

The implementation of Collaborative Governance has demonstrated a significant impact on the management of various strategic sectors, including Micro, Small, and Medium Enterprises (MSMEs), in several countries. Sorensen and Torfing (2018) argue that the Scandinavian countries have effectively addressed public sector challenges by adopting a collaborative governance approach that systematically engages a broad range of actors. In response to increasingly complex societal problems, these countries have fostered cross-sectoral cooperation among government institutions, private enterprises, and civil society organizations to develop more innovative and efficient solutions. This collaborative practice also operates across multiple tiers of government—from national to local levels—ensuring that the resulting policies are contextually relevant and responsive to diverse societal needs. Such an approach enhances participatory decision-making, thereby producing policies that are more effective, adaptive, and conducive to the sustainable development of micro, small, and medium-sized enterprises (MSMEs).

In Indonesia, the implementation of collaboration in public sector management still faces several significant challenges. These include rigid bureaucratic structures, unequal power relations among stakeholders, and the lack of inclusive participatory mechanisms, all of which hinder the creation of effective collaboration. According to Agung (2025), inclusivity in collaborative governance emphasizes the importance of involving all parties, including groups whose participation has been limited, in every stage of policy formulation and decision-making. This approach aims to ensure that the resulting policies are more effective, relevant, and capable of accommodating the interests of society. Through such an approach, it is expected that all stakeholders can actively participate in the decision-making process and contribute to the creation of more inclusive solutions that align with existing needs.

Issues of accountability and trust often constitute major barriers to intersectoral collaboration. When such collaboration is poorly managed, conflicts of interest may emerge among participating actors, resulting in policy inefficiencies. Addressing this challenge requires building transparent relationships among all stakeholders and ensuring that every action taken is subject to clear accountability. The success of collaborative governance fundamentally depends on robust foundations of accountability and trust; without these elements, policy outcomes risk becoming counterproductive and may erode the effectiveness of existing partnerships. To mitigate these risks, it is essential to establish systems that foster transparency, open communication, and well-defined evaluation mechanisms. Such measures can help ensure that intersectoral collaboration operates effectively and yields policy outcomes that are both efficient and beneficial to all stakeholders involved (Bryson et al., 2016).

Collaboration across multiple sectors offers substantial opportunities for Micro, Small, and Medium Enterprises (MSMEs) to access critical resources necessary for business development. In this regard, well-structured strategic partnerships play a pivotal role in facilitating access to a wide range of support mechanisms, from financial assistance essential for business expansion to capacity-building initiatives that enhance managerial and technical competencies. Moreover, such collaborations enable MSMEs to leverage technology that improves operational efficiency and to expand their market networks, thereby reaching new consumers and potential business partners. This becomes increasingly relevant as MSMEs frequently encounter barriers in independently obtaining these resources. Effective multi-sector collaboration, therefore, holds considerable potential to accelerate MSME growth, strengthen competitiveness, and extend market reach at both domestic and international levels. Consequently, reinforcing stakeholder collaboration emerges as a key strategy for creating broader opportunities that enable MSMEs to grow more rapidly and competitively within an increasingly globalized and dynamic market environment (Rana et al., 2021).

The business incubation model that prioritizes collaboration among universities, government institutions, and the private sector has proven to be an effective approach for fostering innovation and promoting the sustainable development of micro, small, and medium enterprises (MSMEs), particularly in developing countries. Such collaborative

frameworks create an enabling environment for MSME growth by integrating the expertise, resources, and networks of each participating stakeholder. Universities play a pivotal role in providing research, technical knowledge, and capacity-building initiatives, while the private sector contributes through market insights, financial support, and access to advanced technologies and innovations. Meanwhile, the government serves a critical function in establishing supportive policies and ensuring the availability of essential infrastructure for MSME sustainability. In the context of developing economies, this partnership-based incubation model has demonstrated its capacity to address key challenges faced by MSMEs, including resource constraints, limited market access, and the need for technological advancement. Consequently, the model not only yields direct benefits for small-scale entrepreneurs but also contributes to broader economic growth and long-term sustainable development (Xiao & Watson, 2019).

The use of digital platforms developed through collaboration among multiple stakeholders has become one of the key strategies for enhancing the competitiveness of micro, small, and medium enterprises (MSMEs) in the digital era. Cross-sector collaboration in digital technology development enables the creation of solutions that are more relevant and accessible to small and medium-sized business actors. A notable example of such an effort is the GoDigital ASEAN platform, which is the result of a partnership between Google and the ASEAN Foundation. This initiative has demonstrated significant contributions to accelerating the digital transformation of MSMEs across Southeast Asia. Through training, mentoring, and access to digital technologies, the platform supports MSMEs in becoming more adaptive to market changes, expanding their consumer reach, and improving efficiency in business management. Such collaborations are crucial for empowering MSMEs to remain resilient and competitive in an increasingly globalized and challenging market environment (ASEAN Foundation, 2021).

The active involvement of local communities in every stage of planning and implementing MSME empowerment programs constitutes a crucial factor that can determine the success of such initiatives. When communities are directly engaged—not merely as beneficiaries but also as part of the decision-making process—the effectiveness of the implemented policies tends to increase significantly. This approach also fosters a sense of ownership among community members toward the programs, thereby creating stronger social support and promoting more sustainable participation. In other words, involving local communities helps design programs that are better aligned with on-the-ground needs and enhances the likelihood of long-term success. Such a participatory approach is essential in building public policies that are both inclusive and responsive to the socio-economic realities at the grassroots level (Nabatchi & Leighninger, 2015).

To ensure that collaboration among various stakeholders proceeds effectively and yields optimal impact, a flexible and adaptive regulatory framework is essential—one that can respond to evolving dynamics. Such a framework is crucial for creating a conducive environment for collaboration as a solution to the challenges inherent in implementing collaborative governance. Rigid and bureaucratic regulations often hinder flexibility and limit stakeholder participation in the policymaking process. Through regulatory reform,

governments can reduce administrative barriers, clarify intersectoral cooperation mechanisms, and promote transparency and accountability in collaboration (Agung, 2025). The regulatory framework should be designed not only to provide legal certainty but also to foster the establishment of an open and inclusive governance system. In this regard, transparency in decision-making, broad participation of all actors, and clear delineation of roles constitute critical aspects that must be taken into account. Without clear structures and responsibilities, collaboration may instead lead to overlapping authorities or even conflicts of interest. Therefore, developing a governance system that promotes synergistic cooperation among actors is essential for realizing sustainable and effective collaboration (Emerson & Nabatchi, 2015).

Based on this context, this study is designed to further explore the implementation of Collaborative Governance as a relevant approach to addressing various challenges while simultaneously uncovering potential opportunities in the development of micro, small, and medium enterprises (MSMEs) in Indonesia. This approach is considered capable of bridging cooperation among the government, the private sector, communities, and other institutions in creating integrated and sustainable solutions. Through an in-depth analysis of both conceptual and practical dimensions of collaboration, this research is expected to make a substantive contribution to strengthening MSME empowerment policies amid the continuously evolving social and economic dynamics (Snyder, 2019).

The primary aim of this study is to examine various forms of collaborative models that have demonstrated effectiveness in fostering the development of micro, small, and medium enterprises (MSMEs), particularly through cross-sectoral partnerships. In addition, the research seeks to identify key elements that determine the success of collaborative governance, including institutional structures, coordination mechanisms, and the participation of diverse stakeholders. By elucidating these factors, the study aspires to provide evidence-based and practically oriented policy recommendations to strengthen MSME empowerment strategies through enhanced collaboration among government, the private sector, academia, and civil society (Ibrahim, 2022).

The main focus is to develop a sustainable and inclusive collaboration model, enabling all stakeholders to participate actively and benefit from the empowerment process (Bryson et al., 2016). Using a conceptual and analytical approach, this study is expected to make a meaningful contribution—both academically and practically—to enhancing the competitiveness of micro, small, and medium enterprises (MSMEs). By developing a deeper understanding of the dynamics of collaborative governance, this research seeks to offer new perspectives that can serve as a reference for policy formulation and practical implementation.

Methodology

This study employs a literature-based research approach, selected to provide a comprehensive understanding of the synergistic relationship among government, private sector, academia, and community stakeholders. Rather than testing a specific theoretical framework, the analysis seeks to formulate optimal strategies to address the contemporary

challenges faced by micro, small, and medium enterprises (MSMEs). The research process involved an extensive review of scholarly literature, wherein data collection and analysis were conducted through systematic examination of relevant academic sources. The materials reviewed include peer-reviewed journal articles, official reports issued by policy institutions, and strategic documents concerning Collaborative Governance and MSME development. This study focuses primarily on literature published within the past decade, encompassing both national and international contexts, to ensure the inclusion of the most current and comprehensive insights. Such an approach enables the identification of emerging trends, persistent challenges, and proven best practices that effectively support the formulation and implementation of collaborative policy frameworks (Boell dan Cecez-Kecmanovic, 2015).

Result and Discussion

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in strengthening national economic development. They not only generate employment opportunities but also foster a more equitable distribution of income and contribute significantly to poverty alleviation. Nevertheless, addressing the challenges faced by this sector cannot be the sole responsibility of the government; it requires the active participation of multiple stakeholders. This necessity arises because the issues confronting MSMEs are multifaceted, extending beyond regulatory and structural dimensions to encompass behavioral patterns and operational practices of the entrepreneurs themselves. Several persistent constraints hinder MSME development, including limited access to finance, inadequate digital literacy, insufficient innovation capacity, weak market bargaining positions, and overlapping or inconsistent regulations that complicate business operations. Consequently, a collaborative and integrative approach becomes imperative. The collective engagement and coordinated efforts of all stakeholders are essential to effectively resolve these challenges and ensure the sustainable growth of the MSME sector.

The development of micro, small, and medium enterprises (MSMEs) in Indonesia continues to face numerous complex challenges. These range from limited access to capital and inadequate digital capabilities to suboptimal human resource quality. Despite these constraints, MSMEs contribute significantly to the national economy, serving as a key driver of GDP and a vital source of employment for many. Unfortunately, despite their substantial role, many MSMEs have not yet achieved their full growth potential, particularly amidst global pressures and the demands of the digital era. Addressing these issues cannot be accomplished by a single institution or agency alone. A cross-sectoral collaborative approach is therefore essential. In this context, the concept of Collaborative Governance is increasingly recognized as both important and relevant for advancing MSME development.

Collaborative Governance is an approach to public governance that emphasizes the importance of cooperation among various cross-sector stakeholders, including government entities, the private sector, civil society, local communities, and academia. This model emerges from the recognition of the increasing complexity of public issues, which can no longer be effectively addressed through conventional bureaucratic and hierarchical

approaches alone. In contrast, Collaborative Governance provides a space for participatory dialogue and joint decision-making, where each actor has an equal opportunity to express their perspectives, needs, and available resources.

With open and transparent communication, this approach aims to create policies that are more inclusive, adaptive, and responsive to the needs of grassroots communities. In the context of Micro, Small, and Medium Enterprise (MSME) development, this collaborative approach is particularly relevant, as it can serve as a bridge between MSME actors and various institutions capable of providing support, whether in the form of access to capital, skills training, market network strengthening, or regulatory guidance. Through cross-sectoral synergy, MSME development is not solely the responsibility of the government but the outcome of a sustained collective commitment to fostering a healthy and competitive business ecosystem.

Given the recurring inadequacy of conventional public policies in addressing the tangible needs of MSME actors, the Collaborative Governance framework emerges as a strategic alternative to mitigate the persistent gap between state institutions and societal actors. As pivotal contributors to the grassroots economy, MSMEs should not be expected to navigate market volatility and rapid technological transformations independently, absent comprehensive and supportive policy interventions. Consequently, fostering multi-stakeholder collaboration—including government agencies, private sector entities, local communities, academic institutions, and the MSMEs themselves—is critical. This paradigm transcends mere technical coordination among institutions, advocating for the establishment of an integrated ecosystem that enhances institutional synergy, reinforces the capacities of all actors, and drives sustainable socio-economic development.

One of the key elements in the Collaborative Governance approach is the presence of direct communication or face-to-face dialogue among stakeholders. In the context of MSME (Micro, Small, and Medium Enterprises) development, such dialogue functions not only as a medium for information exchange but also as a strategic platform to align understanding regarding the challenges encountered in the field. Many MSME development programs fail to achieve optimal outcomes due to the limited availability of two-way discussion spaces that directly involve business actors. One-way formal communication often falls short of capturing the actual needs at the grassroots level. For instance, dialogue initiatives between the cooperative office and digital-based MSME communities have led to the design of training programs tailored to the real challenges faced by entrepreneurs. This process demonstrates that when MSME actors are provided with opportunities to openly express their aspirations, the resulting policies become more practical and effective. It also enhances the sense of ownership and community engagement in policymaking, as stakeholders feel heard and valued as integral participants in the process.

Direct dialogue also opens up opportunities for the development of more dynamic feedback mechanisms. Business actors can convey specific obstacles they face, such as issues related to distribution, licensing, limited raw materials, or challenges in adapting to new technologies. Meanwhile, government authorities or relevant institutions can respond directly, clarify policies, or even adjust programs to make them more contextually

appropriate. In an open-dialogue environment, collaborative solutions can be more easily formulated collectively. Furthermore, face-to-face communication fosters the development of trust among the involved actors. Trust serves as a crucial foundation in the practice of Collaborative Governance, as cooperation is impeded by suspicion and resistance in its absence. Regular and structured dialogue forums can facilitate healthy negotiation processes and strengthen social networks among stakeholders. In the long term, this can cultivate a collaborative culture embedded within the governance of local economic development.

To ensure the effectiveness of such dialogues, inclusive facilitation and an approach sensitive to the local social and cultural context are required. Not all MSME actors possess the confidence to voice their perspectives in formal forums; therefore, empowerment strategies that promote active and equitable participation are necessary. Moreover, the presence of third parties, such as academics or civil society organizations, as facilitators can help bridge communication among actors and ensure that the dialogue process proceeds in a fair and productive manner.

The success of implementing a dialogue model within Collaborative Governance heavily depends on the process of trust-building among stakeholders. In practice, many MSME actors remain skeptical of government intervention. This skepticism stems from prior experiences in which assistance and programs were often misaligned, symbolic, or hindered by complex bureaucratic procedures. As a result, their participation in formal forums tends to be low due to disappointment and a lack of confidence in the effectiveness of government policies. In this context, efforts to build trust constitute a crucial initial element for the success of long-term collaboration. The government, together with its strategic partners, needs to demonstrate genuine commitment through information transparency, active involvement of MSMEs in program planning and evaluation, and ensuring that policy outcomes reflect the actual needs in the field. For instance, when the process of distributing business capital assistance is conducted transparently and involves MSMEs in the verification stage, it fosters a perception of fairness. When business actors feel treated equally, trust grows, and they become more willing to contribute to the development process.

The current situation of Indonesian MSMEs (Micro, Small, and Medium Enterprises) presents complex challenges but also significant opportunities. On one hand, MSMEs still face difficulties in accessing financing, technology, and extensive marketing networks. On the other hand, the post-pandemic drive toward digitalization provides opportunities to enhance their competitiveness through digital platforms, e-commerce, and technology-based training. However, these opportunities will not be effectively realized if the relationship between business actors and the government remains characterized by mutual distrust. Therefore, open communication grounded in trust becomes a fundamental basis for fully leveraging the momentum of digital transformation. Building trust also entails creating sustainable relationships, rather than merely short-term, project-oriented engagements. MSME support programs must be continuous and tailored to the evolving needs of business actors. For instance, local governments could establish partnerships with

universities to provide facilitators capable of assisting MSMEs in business planning, financial literacy, and digital marketing. This approach not only strengthens the capacity of MSME actors but also enhances the credibility of the government as a strategic partner.

Finally, trust is not established overnight. It develops through consistent actions and the continuity of policies whose benefits are directly experienced by MSME actors. Regular program evaluations, the publication of achievement outcomes, and community involvement in decision-making processes will strengthen a healthy collaborative ecosystem. This is where Collaborative Governance demonstrates its value: not as an elitist concept, but as a concrete practice that addresses the needs of grassroots economic communities in a participatory, transparent, and equitable manner.

Commitment to the process is a key element in the practice of Collaborative Governance, particularly in the context of SME development. Genuine collaboration is not limited to short-term activities or ceremonial projects; rather, it requires sustained dedication from all parties involved. The government, as the primary driver of policy, must ensure that SME empowerment programs are not merely temporary or contingent upon the annual budget cycle. Consistency in program implementation, even under constrained fiscal conditions, reflects a serious commitment to fostering resilient SMEs capable of adapting to market dynamics.

This commitment is also evident in initiatives by various regions that continue to implement MSME (Micro, Small, and Medium Enterprises) mentoring programs despite financial constraints. For instance, several local governments have collaborated with universities to organize business, finance, and digitalization training programs, with lecturers and students serving as field mentors. Although these efforts are not always accompanied by direct financial incentives, the participation of these actors reflects a shared awareness that the success of MSMEs represents a long-term investment in local economic growth. This approach has proven to generate positive outcomes, as evidenced by the development of creative industry clusters in several cities that are now gaining recognition at the national and international levels. The current condition of MSMEs in Indonesia necessitates greater attention to the sustainability of such programs. Many MSME actors perceive policies as frequently changing, lacking clear direction, or being merely formalities. However, to enhance MSME productivity, a stable and continuous ecosystem is required. Commitment to the process becomes crucial because each stage of capacity building—from financial literacy and digital marketing to production management—cannot be completed in a short period. Each stage requires time, evaluation, and adaptation. Therefore, when stakeholders demonstrate persistence in mentoring MSMEs to completion, rather than stopping at training alone, the resulting impact is more tangible and sustainable.

On the other hand, commitment is also reflected in the readiness to adapt programs to the actual challenges faced by MSMEs. For instance, in the current digital era, small and medium enterprises must be capable of competing in online markets. Therefore, cross-sector collaboration should focus on enhancing the digital skills of MSMEs, ranging from utilizing social media for promotion, leveraging e-commerce platforms, to managing finances through digital applications. The government and the education sector can play a pivotal

role in bridging these skill gaps by providing training that is accessible, affordable, and aligned with the needs of MSMEs across different regions. Ultimately, the success of collaboration in MSME development is measured not only by short-term outcomes but also by the commitment of all stakeholders to keep the process alive, adaptive, and inclusive. When all actors—government, private sector, academia, and civil society—demonstrate sustained commitment, an environment is created that encourages MSMEs to continuously grow, innovate, and contribute significantly to national economic development.

Although commitment serves as a crucial foundation in collaboration, program sustainability cannot be achieved without a shared understanding among stakeholders. In the context of MSME empowerment, there is often a mismatch between government priorities and the actual needs on the ground. For instance, the government may focus on providing business administration training, whereas MSME actors are primarily confronted with challenges related to product distribution and access to digital markets. This disparity in understanding frequently underlies the failure of programs that have been designed with substantial investment. Therefore, it is essential to establish open dialogue spaces that allow actors to align perceptions and collectively define problems. Within the Collaborative Governance approach, discussion forums serve as key instruments to foster such mutual understanding. Through these forums, actors—including government representatives, business practitioners, academics, and local community members—are encouraged to exchange information, articulate their interests, and collaboratively develop realistic solutions.

The primary challenge facing Indonesian MSMEs is low digital literacy coupled with inadequate infrastructure, particularly in regions beyond major urban centers. Without a shared recognition of the urgency of digitalization, training initiatives often fail to address underlying issues. While many MSME actors are willing to adopt digital platforms, they are hindered by limited access to tools, internet connectivity, and technical guidance. Consequently, it is essential that government interventions extend beyond mere provision of equipment to include advanced training, sustained mentoring, and streamlined access to digital market information.

Mutual understanding is a crucial determinant in defining appropriate program success indicators. Frequently, initiative success is assessed solely by budget utilization or participant numbers, neglecting its actual effects on revenue growth, market expansion, or business sustainability. When stakeholders align on the principle that key indicators should directly reflect changes at the level of business actors, programs are steered toward activities that produce tangible impact. This signifies a paradigm shift from an administrative to a transformational orientation.

Consequently, shared understanding transcends merely aligning perspectives and functions as a critical mechanism for fostering more responsive, precise, and sustainable policy frameworks. Within the SME context, this involves the co-creation of narratives and action plans that are rigorously anchored in the operational realities of business practitioners. By cultivating strong consensus and commitment, all stakeholders establish a

unified foundation for strategic planning, impact assessment, and the adaptive refinement of approaches in response to ongoing technological and societal developments.

The importance of paying attention to intermediate outcomes in the development of MSMEs cannot be overlooked, particularly in the Indonesian context, which is characterized by regional diversity and varying levels of entrepreneurial readiness. An excessive focus on long-term targets, such as increasing MSME product exports or accelerating growth in the informal sector, often leads to inadequate monitoring of ongoing processes. In fact, small achievements—such as an increase in the number of MSMEs with formal business registration, the adoption of digital financial recording systems by entrepreneurs, or the formation of peer learning groups among MSMEs—serve as crucial indicators of early success in collaborative processes. In practice, many collaborative innovations actually emerge from these intermediate outcomes. For instance, the establishment of online discussion groups comprising MSME actors, academics, and government officials often becomes a meeting point that generates new strategic ideas. In certain regions, these forums have even facilitated the creation of community-based digital cooperatives, which initially started as campus-led mentoring projects. These small successes contribute to the development of a social learning ecosystem that gradually strengthens the collective capacity of both policymakers and entrepreneurs. This implies that short-term outcomes achieved through inter-actor collaboration should not be underestimated, as they form the foundation for long-term success.

The current condition of Indonesian MSMEs indicates that many entrepreneurs are still in the early stages of development. According to data from the Ministry of Cooperatives and SMEs in 2023, approximately 70% of MSMEs remain in the micro sector and have yet to advance due to limited access to capital, technology, and markets (Awaludin & Yusrizal (2025). In this context, developing a strategic plan in the form of intermediate outcomes becomes highly important. For example, increasing the number of MSMEs successfully connected to local e-commerce platforms or the number of entrepreneurs participating in digital financial training. Such outcomes should be recognized as collective achievements resulting from collaborative efforts, rather than being highlighted only when major accomplishments are realized.

Furthermore, recognition of intermediate outcomes also facilitates a more adaptive and data-driven evaluation process. By paying attention to these micro-level indicators, the government and its collaborative partners can swiftly adjust intervention strategies in response to disparities or stagnation in program implementation. This fosters a healthy feedback loop, where policies are not top-down or rigid but rather responsive and evolving according to real needs on the ground. Through this approach, Collaborative Governance becomes a mechanism that not only promises significant end results but also ensures that every incremental step in the development of MSMEs carries strategic significance.

The implementation of collaborative strategies in strengthening SMEs is not limited to local or regional contexts, but has evolved into a nationwide movement. In 2021, the government launched the “Proudly Made in Indonesia” (BBI) program. The National Movement for Proudly Made in Indonesia (Gernas BBI) aims to promote the digitalization

(onboarding) of offline SMEs and to enhance the national branding of leading SME products across various marketplaces. Furthermore, this initiative is also expected to boost the export of SME products (www.ekon.go.id: 2021)

Furthermore, online training programs provided by the global private sector to Indonesian SMEs demonstrate that cross-boundary actor synergy is critically important. For instance, programs such as Google Gapura Digital and Facebook Boost with Facebook are designed to enhance SMEs' understanding of leveraging digital technologies for business activities. In these initiatives, entrepreneurs receive training related to digital marketing strategies, the use of data analytics, and improving customer engagement through the optimal utilization of social media (Anita et al., 2024). The existence of these programs indicates that the global private sector can also serve as a strategic partner in local SME development, provided there is clear policy direction and an inclusive collaborative space. This also reflects that Collaborative Governance is no longer merely an academic concept but has emerged as a practical method for fostering inclusive economic development.

The current condition of Indonesian MSMEs also demands a more innovative and sustainable approach. According to data from the Ministry of Cooperatives and SMEs, approximately 60% of MSME actors still face difficulties in accessing training and technology due to limitations in geographic location, internet connectivity, or digital literacy. Therefore, collaboration should not be limited to the establishment of national programs alone but must also reach the 3T regions (Underdeveloped, Frontier, and Outermost) through adaptive local partnerships. Local governments, universities, and community organizations must play an active role as extensions of these national strategies to ensure that their benefits are experienced equitably (Kemenkop UKM, 2023).

The implementation of Collaborative Governance at the national level also requires continuous, data-driven evaluation. Relevant ministries, together with academics and technology partners, must establish a collaborative monitoring system that enables real-time measurement of program impacts. When training outcomes, revenue growth, or market expansion of MSMEs can be systematically tracked, trust and accountability among actors will be strengthened. Consequently, collaboration will transcend symbolic gestures and evolve into a sustainable working model that continuously adapts to changing times.

Although the Collaborative Governance approach offers new prospects for MSME development, its implementation in many regions continues to face significant obstacles. Collaboration, which ideally should be participatory, is often reduced to ceremonial events without meaningful follow-up. Communication among stakeholders is rarely maintained on a regular basis, while mutual trust has yet to be established due to information asymmetry and a lack of budgetary transparency. Commitment to the sustainability of the process is frequently disrupted by changes in officials or inconsistent policy directions. Furthermore, the absence of accurate data regarding MSME profiles complicates the formulation of targeted strategies. Therefore, a transformation in governance systems and institutional approaches is required to ensure that cross-sector collaboration operates effectively and sustainably.

An essential initial step is to design an actor engagement system that is inclusive and active from the policy planning phase. The government needs to provide decision-making spaces that directly involve MSME actors, for instance, through the establishment of permanent and open coordination forums at the district or city government level. Subsequently, capacity-building among stakeholders is necessary to foster equitable relationships within the collaboration. The private sector and academia should share expertise transparently, while MSME actors must receive fundamental training in business management and technology utilization, enabling them to function as active partners rather than mere policy recipients. Finally, it is important to develop evaluation indicators that focus on the process rather than solely on end outcomes. Program success assessments should encompass the extent to which trust, communication, and joint actions have been successfully established among the actors.

The Collaborative Governance approach extends beyond a mere theoretical construct and can be operationalized as a strategic framework for MSME development that is contextually grounded, responsive to practical needs, and capable of producing tangible outcomes. Its five core components—direct communication, trust-building, procedural consistency, inter-actor alignment, and the attainment of early results—constitute a foundational mechanism for navigating the complex challenges and opportunities encountered by MSMEs in Indonesia. This strategy not only facilitates inclusive, community-driven economic growth but also promotes participatory and equitable governance oriented toward sustainable positive change.

Conclusion

The development of micro, small, and medium enterprises (MSMEs) in Indonesia constitutes a strategic agenda that not only influences national economic growth but also plays a significant role in promoting equitable welfare and social resilience. Nevertheless, the complexity of challenges faced by this sector necessitates a novel approach that is more integrative and participatory. Collaborative Governance emerges as a relevant strategy to address these needs, as this approach facilitates active engagement of diverse cross-sector actors in the formulation and implementation of public policy.

Through the implementation of Collaborative Governance, classical obstacles such as limited access to capital, low digital literacy, and the poor quality of human resources in the MSME sector can be addressed more effectively and inclusively. Structured collaboration among the government, private sector, universities, local communities, and civil society serves as a key mechanism in providing comprehensive, adaptive, and needs-based solutions for business actors. Furthermore, this approach can strengthen cross-institutional synergy, minimize policy overlap, and enhance the legitimacy and sustainability of MSME empowerment programs.

Referring to the Collaborative Governance theory developed by Ansell and Gash (2008) as well as Emerson and Nabatchi (2015), there are five key elements that underpin the success of cross-sector collaboration in supporting the development of MSMEs: direct dialogue, trust-building, commitment to process continuity, mutual understanding among

actors, and early outcomes. When these five elements are implemented in an integrated and sustained manner, policies that are more responsive, field-oriented, and focused on achieving tangible results can be established. Direct interaction encourages the emergence of real issues faced by MSME actors, while trust serves as a social bridge connecting stakeholders who previously did not collaborate. Commitment to the process ensures that programs do not stall midway, mutual understanding minimizes gaps in perspectives, and early achievements provide measurable evidence of success.

Nevertheless, the implementation of Collaborative Governance is not without challenges, such as inflexible bureaucratic structures, imbalanced relationships among actors, and low levels of public trust and participation. Therefore, a more adaptive regulatory framework, clear coordination mechanisms, and a transparent accountability system are required to ensure that the collaborative process can operate effectively and sustainably. A shared commitment from all stakeholders is an essential prerequisite for building a collaborative ecosystem capable of enabling SMEs to advance in their development and compete in the digital era and global market. Collaborative governance is not merely a technocratic approach; rather, it represents a transformative strategy in development governance grounded in the principles of inclusivity, participation, and sustainability. This study is expected to serve as a reference for the formulation of public policies that are more responsive to contemporary challenges, as well as a foundation for fostering a resilient, innovative, and highly competitive MSME ecosystem in the future.

This study conducted by the author inevitably has certain limitations, particularly in terms of the data utilized, which are primarily derived from a literature review of relevant journals, books, and other secondary sources. Therefore, it is highly expected that future researchers will conduct more in-depth investigations on the development and progress of MSMEs through direct field research, so that the data obtained will be more accurate, specific, and possess a higher degree of novelty regarding the research object and topic. Furthermore, the author hopes that future studies on MSMEs will also examine the aspect of technology utilization in their development. The adaptation of digitalization is expected to have a significant impact on MSME actors by expanding their market reach, both nationally and globally, through digital platforms.

References

- Agung, M.F.M. 2025. Strategi Collaborative Governance Dalam Reformasi Pelayanan Publik. *IJPA - The Indonesian Journal of Public Administration*, Vol 11, No 01, 18-26
- Akbar, M.F, Hidayat, Hendra, J. 2024. Peran UMKM Dalam Membangun Ekonomi Kerakyatan. *Jurnal Multidisiplin Inovatif*, Vol 8 No 6, <https://sejurnal.com/pub/index.php/jmi/article/view/2095/2423>
- Anita, Turyandi, I., Manurung, M.T., Kuncorosidi, Adawia, K.P., Lugiani, T., Anwar, M, S., Verawati,L., Desty A, B., Abdurohim, Purwantini, H., Sigalingging, A, S, M., Riyanton, Lely, Egim,A, S., Endriastuty, Y. 2024. *Manajemen UMKM Transformasi dan Inovasi di Era Digital*. Banyumas: Ganesha Kreasi Semesta

- Ansell, C., & Gash, A. (2008). Collaborative Governance in Theory and Practice. *Journal of Public Administration Research and Theory*, 18(4), 543–571.
- ASEAN Foundation. (2021). *GoDigital ASEAN 2021 Report: Accelerating Digital Transformation in Southeast Asia's Small and Medium-Sized Enterprises (SMEs)*. ASEAN Foundation.
- Asian Development Bank. (2020). *The Impact of COVID-19 on MSMEs in Southeast Asia*. ADB Briefs.
- Awaludin, A., & Yusrizal, Y. (2025). Persepsi UMKM Terhadap Kebijakan Pemerintah Daerah Dalam Pengembangan Usaha . *Indonesian Journal Journal of Applied Economics and Business Global*, 1(1), 8–15. <https://doi.org/10.55681/ijereg.v1i1.33>
- Boell, S. K., & Cecez-Kecmanovic, D. (2015). On Being 'Systematic' in Literature Reviews. *Formulating Research Methods*, 32(2), 89–104.
- BPS (Badan Pusat Statistik). (2023). *Profil Usaha Mikro, Kecil, dan Menengah (UMKM) Indonesia: Tinjauan Statistik 2023*. Badan Pusat Statistik.
- Bryson, J. M., Crosby, B. C., & Stone, M. M. (2016). Designing And Implementing Cross-Sector Collaborations: Needed And Challenging. *Public Administration Review*, 75(5), 647–663.
- Emerson, K., & Nabatchi, T. (2015). *Collaborative Governance Regimes*. Georgetown University Press.
- Hanasi, R. A., Kadir, M. K. K., Malae, A. K., Kasim, M., Suleman, D., Puloğu, S. I., & Bumulo, S. (2023). Sosialisasi Pengembangan Usaha Mikro Kecil Menengah di Desa Posso dan Desa Bubode Kabupaten Gorontalo Utara. *Sosiologi Jurnal Penelitian Dan Pengabdian Kepada Masyarakat*, 1(1), 10–22. <https://doi.org/10.37905/sjppm.v1i1.2>
- Ibrahim, H.R. 2022. Pemberdayaan Usaha Mikro Kecil Menengah Melalui Pendekatan Inovasi Sosial dan Collaborative. *Jurnal Ilmu dan Budaya*, Vol 42 No 1, <https://doi.org/10.47313/jib.v43i1.1532>
- Kementerian Keuangan RI. 2022. Pengembangan UMKM Dorong Pertumbuhan Ekonomi. Di akses pada <https://www.kemenkeu.go.id/informasi-publik/publikasi/berita-utama/pengembangan-umkm-dorong-pertumbuhan-ekonomi>
- Kementerian Koordinator Bidang Perekonomian Republik Indonesia. 2021. Dukungan Pemerintah untuk Mendorong UMKM Go Digital dan Go Global. Di akses pada <https://ekon.go.id/publikasi/detail/3180/dukungan-pemerintah-untuk-mendorong-umkm-go-digital-dan-go-global>
- Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia. (2023). *Peningkatan Keterampilan Digital UMKM: Tantangan dan Peluang di Era Digital*. Jakarta: Kemenkop UKM.
- Kiswandi, F, R, P, Setiawan, M.C., Ghifari, M.A. 2023. Peran UMKM (Usaha Mikro, Kecil, Dan Menengah) Terhadap Pertumbuhan Perekonomian Indonesia. *Jurnal Ilmiah Ekonomi Dan Manajemen*. Vol. 1 No 4. <https://doi.org/10.61722/Jiem.V1i4.328>
- Nabatchi, T., & Leighninger, M. (2015). *Public Participation for 21st Century Democracy: A Comprehensive Guide to Engaging Citizens in Government Decision-Making*. Wiley.

- Novitasari, A.T. 2022 . Kontribusi UMKM Terhadap Pertumbuhan Ekonomi Era Digitalisasi Melalui Peran Pemerintah. *Journal of Applied Business and Economic (JABE)* Vol. 9 No. 2. 184-204, <http://dx.doi.org/10.30998/jabe.v9i2.13703>
- OECD. (2020). *Improving Governance with Policy Evaluation: Lessons From Country Experiences*. OECD Public Governance Reviews.
- Ramadani, S., Ramadhani, D.A., Ikrom, M., Harahap, L.M. (2025). Peran Strategis UMKM dalam Mendorong Pertumbuhan Ekonomi Berkelanjutan di Indonesia . *Jurnal Ekonomi, Bisnis Dan Manajemen*, 4(1), 158–166, <https://doi.org/10.58192/ebismen.v4i1.3183>
- Rana, N. P., Slade, E. L., Kitching, S., & Dwivedi, Y. K. (2021). Adoption Of Digital Technologies In Small Business: The Influence Of Collaborative Governance. *Information Systems Frontiers*, 23(2), 389–408.
- Saputra, A.D. 2015. Implementasi Kebijakan Uaha Mikro, Kecil Dan Menengah (UMKM) Di Kecamatan Pontianak Timur. *Publika Jurnal Ilmu Administrasi Negara*, Vol 4, No , <Http://Dx.Doi.Org/10.26418%2Fpublika.V4i1.572>
- Snyder, H. (2019). Literature Review as a Research Methodology: An Overview and Guidelines. *Journal of Business Research*, 104, 333–339.
- Sørensen, E., & Torfing, J. (2018). *Theories of Democratic Network Governance*. Palgrave Macmillan.
- UNDP Indonesia. (2021). *The Socioeconomic Impact of COVID-19 on MSMEs in Indonesia*. Jakarta: United Nations Development Programme.
- World Bank. (2021). *Boosting Productivity and Inclusiveness of Indonesia’s MSMEs*. World Bank Group.
- Xiao, L., & Watson, M. (2019). Guidance on conducting a systematic literature review. *Journal of Planning Education and Research*, 39(1), 93–112.
- Yolanda, C., & Hasanah, U. (2024). Peran Usaha Mikro, Kecil Dan Menengah (UMKM) Dalam Pengembangan Ekonomi Indonesia. *Jurnal Manajemen Dan Bisnis*, 2(3), 170-186. <https://doi.org/10.36490/jmdb.v2i3.1147>