

## ***Profile and Financing Access Gaps of MSMEs in Indonesia: evidence from ADB Asia SME Monitor 2024***

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### **Abstract**

*Micro, Small, and Medium Enterprises (MSMEs) play a central role in Indonesia's economy, yet access to finance remains a persistent constraint for their growth and resilience. This study aims to map the profile of MSMEs and identify gaps in access to financing in Indonesia using data from the Asian Development Bank Asia Small and Medium-Sized Enterprise Monitor 2024. The study employs a descriptive approach based on a multidimensional framework of depth, breadth, and risk to examine MSME financing conditions. The analysis focuses on MSME landscape indicators and banking financing data, including credit ratios, distribution structure, and non-performing loans. The findings indicate that although MSME credit has increased nominally in recent years, the depth of financing remains relatively stable when measured against GDP and total bank credit. Financing is still concentrated in specific sectors and predominantly allocated for working capital, while credit risk in the MSME segment remains higher than the aggregate banking portfolio. These results suggest that improvements in MSME financing require not only credit expansion but also policies that strengthen financial depth, broaden access, and enhance risk mitigation. The study provides policy-relevant insights to support more inclusive and sustainable MSME financing in Indonesia.*

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#### **Keywords:**

*Access to Finance, Banking  
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## **INTRODUCTION**

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as the backbone of Indonesia's economy due to their dominant share in business units and their substantial contribution to employment generation. Beyond their role in absorbing labor, MSMEs also support inclusive growth, local value creation, and economic


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resilience, particularly in the post-pandemic period. However, limited access to finance remains one of the most persistent constraints faced by MSMEs in sustaining operations, expanding capacity, and upgrading productivity. Regional policy assessments consistently highlight that although MSME support frameworks in ASEAN have expanded, financing access continues to represent a critical bottleneck that requires stronger institutional coordination, improved policy evaluation, and better-quality data<sup>5</sup>.

From a conceptual perspective, MSME financing gaps are commonly explained by information asymmetry, collateral constraints, and higher transaction costs associated with small-scale lending. Recent empirical studies show that collateral requirements are a rational response by financial institutions to mitigate adverse selection and moral hazard, yet they simultaneously restrict access for MSMEs with limited asset bases.<sup>6</sup> Firm-level evidence further indicates that the structure of the financial sector and the quality of institutional environments play a significant role in shaping MSME financing outcomes. More competitive banking systems, supported by effective credit information infrastructures and legal enforcement, tend to reduce the likelihood of firms becoming credit-constrained.<sup>7</sup> These insights suggest that MSME financing challenges are not solely related to the availability of credit, but are deeply rooted in institutional design and risk governance.

Evidence from Indonesia also demonstrates that financing constraints are unevenly distributed across MSME segments. Micro-level studies reveal that certain groups, such as women-owned MSMEs, face additional barriers related to limited collateral, lower financial literacy, and social constraints, which prevent them from accessing formal financing even when credit programs are available.<sup>8</sup> At the same time, alternative financing channels such as Islamic microfinance institutions have shown potential in supporting MSME development when financial access is combined with improvements in human capital and financial literacy.<sup>9</sup> These findings underscore the importance of assessing not only the volume of MSME financing, but also its reach and effectiveness across different segments of enterprises.

In recent years, financial digitalization has further reshaped the MSME financing landscape. Fintech-based lending and digital financial services are increasingly viewed as mechanisms to reduce information frictions and transaction costs, thereby expanding access for previously underserved MSMEs. Empirical studies in several ASEAN economies indicate that fintech solutions can provide alternative financing opportunities, particularly during periods of economic disruption, although regulatory challenges and governance risks remain substantial.<sup>10</sup> Without adequate oversight,

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<sup>5</sup>ERIA, OECD, and ASEAN Secretariat (2024). *SME Policy Index: ASEAN 2024*.


<sup>6</sup>Toannidou, V., Pavanini, N., & Peng, Y. (2022). *Journal of Financial Economics*.

<sup>7</sup>Khan, H. H., & Kutun, A. M. (2023). *Journal of International Financial Markets, Institutions and Money*.

<sup>8</sup>Nofriadi, N., Elfiswandi, E., Rafki, R., & Lusiana, L. (2024). *Jurnal Akuntansi, Manajemen, dan Perencanaan Kebijakan*.

<sup>9</sup>Febrianti, S. R., & Fitriani, A. P. (2024). *Niqosiya: Journal of Economics and Business Research*.

<sup>10</sup>Karim, S., Naz, F., Naeem, M. A., & Vigne, S. A. (2022). *Economic Analysis and Policy*.



improvements in access through digital channels may also be accompanied by heightened credit risk and consumer protection concerns.<sup>11</sup>

Despite the growing body of literature, many existing studies remain fragmented, focusing on specific financing instruments, particular MSME groups, or isolated institutional contexts. As a result, policy-relevant questions—such as where the most significant financing gaps lie and which indicators best capture progress in improving access—are often left unanswered in a systematic manner. Addressing these gaps requires structured and comparable data sources that allow comprehensive mapping of MSME financing conditions. In this regard, the Asia Small and Medium-Sized Enterprise Monitor (ASM) 2024, published by the Asian Development Bank, provides a coherent set of MSME landscape and financing indicators for Indonesia.<sup>12</sup>

Accordingly, this study aims to systematically map the profile of MSMEs and identify financing access gaps in Indonesia using evidence from the ADB Asia SME Monitor 2024. Financing gaps are examined through a multidimensional framework encompassing financing depth, financing breadth, and financing risk. This approach is important because increases in MSME credit do not necessarily translate into deeper financial integration, broader access across enterprises, or sustainable credit quality. By adopting this framework, the study provides policy-relevant insights into how MSME financing in Indonesia can be strengthened in a more inclusive and sustainable manner.

## RESEARCH METHODS

This study employs a descriptive research design based on secondary data to map the profile of Micro, Small, and Medium Enterprises (MSMEs) and identify gaps in access to finance in Indonesia. The descriptive approach is appropriate because the objective of the study is not to test causal relationships, but to systematically describe patterns, structures, and disparities in MSME financing using standardized indicators.<sup>13</sup> The analysis adopts a multidimensional framework of financing depth, breadth, and risk to capture the complexity of MSME access to finance beyond nominal credit expansion.<sup>14</sup>

### Data Source and Scope

The primary data source of this study is the Asia Small and Medium-Sized Enterprise Monitor (ASM) 2024 published by the Asian Development Bank. The empirical scope is limited to Indonesia, using the country tables and financing indicators compiled in ASM 2024. This dataset provides MSME landscape indicators (such as the number of MSMEs, employment share, and sectoral structure) and banking-related financing indicators (including MSME credit ratios, credit distribution, and non-performing loans).<sup>15</sup> The period of observation follows the latest available year principle, with time-series data used when available to describe recent trends.

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<sup>11</sup>Otoritas Jasa Keuangan & Asian Development Bank (2020). *Financial Inclusion for MSMEs through Fintech*.

<sup>12</sup>Asian Development Bank (2024). *Asia Small and Medium-Sized Enterprise Monitor 2024*.

<sup>13</sup>Creswell, J. W., & Creswell, J. D. (2018). *Research design: Qualitative, quantitative, and mixed methods approaches*.

<sup>14</sup>World Bank. (2020). *Global Financial Development Report 2019/2020*.

<sup>15</sup>Asian Development Bank, *Loc.Cit*.

## Operational Definitions and Analytical Framework

In this study, MSMEs are defined according to the classifications used in ASM 2024 for Indonesia, which incorporate both regulatory definitions (based on assets and turnover) and statistical definitions (based on employment size).<sup>16</sup> Financing access is operationalized using three analytical dimensions:

1. financing depth, measured by the ratio of MSME credit to GDP and the share of MSME credit in total bank credit;
2. financing breadth, assessed through the structure and distribution of MSME credit by sector, region, usage (working capital versus investment), and maturity, due to limitations in borrower-level indicators;
3. financing risk, proxied by the non-performing loan (NPL) ratio of MSME credit relative to the aggregate banking portfolio.<sup>17</sup>

This framework allows a comprehensive interpretation of financing gaps, recognizing that increases in credit volume may not necessarily reflect broader access or sustainable credit quality.<sup>18</sup>

## Data Processing and Analysis

Data processing involves three main steps. First, relevant indicators are extracted from ASM 2024 and organized into analytical tables distinguishing MSME profile indicators and financing indicators. Second, indicators are standardized in consistent units (percentages and nominal values) and validated for internal consistency, particularly for ratio-based measures. Third, descriptive analysis is conducted to identify patterns, trends, and gaps across the depth, breadth, and risk dimensions of MSME financing in Indonesia. The results are presented in tabular and narrative form to facilitate interpretation and policy discussion.<sup>19</sup>

## RESULTS AND DISCUSSION

### MSME Profile and Economic Significance in Indonesia

The results show that MSMEs dominate Indonesia's business structure and account for a substantial share of total employment. Data from ASM 2024 indicate that the number of MSMEs and MSME employment experienced a contraction in 2021, reflecting the impact of the COVID-19 shock, before recovering in 2022. This pattern suggests that MSMEs remain highly sensitive to macroeconomic disruptions, yet continue to play a stabilizing role during the recovery phase. In terms of output, MSMEs contribute significantly to gross domestic product, while their contribution to exports remains relatively limited compared to their dominance in the enterprise structure.<sup>20</sup> This gap highlights the importance of financing not only as a liquidity buffer, but also as a strategic instrument to enhance productivity, scale, and integration into higher value-added activities.

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<sup>16</sup>OECD. (2021). *SME and Entrepreneurship Outlook 2021*.

<sup>17</sup>World Bank, *Loc.Cit.*

<sup>18</sup>World Bank, *Loc.Cit.*

<sup>19</sup>Asian Development Bank, *Loc.Cit.*

<sup>20</sup>Asian Development Bank. (2024). *Asia Small and Medium-Sized Enterprise Monitor 2024*.



## Financing Depth: Credit Expansion without Structural Deepening

From the financing perspective, MSME credit in Indonesia increased steadily in nominal terms during 2019–2023. However, indicators of financing depth reveal a different picture. The ratio of MSME credit to GDP remained relatively stable at around seven percent, while the share of MSME credit in total bank lending hovered at approximately twenty to twenty-one percent.<sup>12</sup> These findings suggest that the post-pandemic increase in MSME credit largely reflects nominal recovery rather than structural deepening of financial integration. Similar patterns have been documented in policy-oriented studies, which argue that credit expansion often follows economic cycles when structural constraints—such as collateral requirements and limited credit information—remain unchanged.<sup>21</sup> Without reforms addressing these constraints, increases in outstanding credit may fail to translate into deeper and more inclusive financing.

## Financing Breadth: Concentration and Data Limitations

The breadth dimension of MSME financing remains difficult to assess comprehensively due to the absence of consistent borrower-level indicators in the available dataset. Nevertheless, indirect evidence from credit structure provides important insights. MSME lending is concentrated in the trade sector, with a dominant share allocated to working capital rather than investment financing. Regionally, credit distribution is largely concentrated outside Jakarta, reflecting the geographic dispersion of MSMEs across Indonesia.<sup>22</sup> While this pattern indicates broad geographic outreach, it also raises concerns about sectoral and functional concentration. Policy studies emphasize that increases in outstanding credit may result from higher loan sizes for existing borrowers, rather than expanded access for new or previously underserved MSMEs.<sup>23</sup>

Micro-level evidence from Indonesia further supports this concern. Studies on women-owned MSMEs show that limited collateral, lower financial literacy, and social constraints continue to restrict access to formal financing, even when credit programs are available.<sup>24</sup> These findings suggest that financing breadth should be interpreted not only in terms of sectoral and regional distribution, but also in terms of inclusiveness across different MSME segments. Strengthening borrower-level data and monitoring mechanisms is therefore critical to ensure that financing policies effectively reach first-time borrowers and underserved groups.

## Financing Risk: Higher Vulnerability in the MSME Segment

The risk dimension reveals that non-performing loan (NPL) ratios for MSME credit are consistently higher than those of the aggregate banking portfolio.<sup>25</sup> This indicates greater vulnerability in the MSME segment, which is commonly associated with volatile cash flows, limited buffers, and weaker credit histories. Recent financial studies emphasize that higher risk profiles in MSME lending often lead banks to adopt more conservative lending behavior, thereby constraining financing depth and breadth.<sup>26</sup>

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<sup>21</sup>ERIA, OECD, and ASEAN Secretariat. (2024). *SME Policy Index: ASEAN 2024*.


<sup>22</sup>Asian Development Bank, *Loc.Cit*.

<sup>23</sup>ERIA, OECD, and ASEAN Secretariat, *Loc.Cit*

<sup>24</sup>Nofriadi, N., Elfiswandi, E., Rafki, R., & Lusiana, L. (2024). *Jurnal Akuntansi, Manajemen, and Policy Planning*.

<sup>25</sup>Asian Development Bank, *Loc.Cit*.

<sup>26</sup>Ioannidou, V., Pavanini, N., & Peng, Y. (2022). *Journal of Financial Economics*.



In Indonesia, this risk profile helps explain why MSME credit expansion remains cautious and heavily reliant on risk-sharing mechanisms.

Public financing schemes, particularly the People's Business Credit (KUR) program, play a significant role in mitigating these risks. While KUR has contributed substantially to MSME credit growth, the observed increase in non-performing KUR loans in 2023 highlights the importance of maintaining strong risk governance and monitoring frameworks.<sup>27</sup> Policy-oriented literature warns that aggressive credit expansion without adequate risk management may undermine the sustainability of MSME financing programs.<sup>28</sup>

### **Alternative Financing Channels and Policy Implications**

Beyond bank lending, alternative financing channels offer complementary pathways to address MSME financing gaps. Evidence from Islamic microfinance institutions suggests that access to microfinance, when combined with improvements in financial literacy and human capital, is positively associated with MSME development.<sup>29</sup> This finding reinforces the argument that financing interventions should integrate financial and non-financial support. At the same time, the expansion of digital lending and fintech-based services presents opportunities to reduce information frictions and transaction costs, although these innovations require robust regulatory oversight to prevent excessive risk-taking and consumer protection issues.<sup>30</sup>

Overall, the combined results indicate that MSME financing gaps in Indonesia are multidimensional. Credit expansion alone is insufficient to achieve inclusive and sustainable financing. Instead, policies must simultaneously promote deeper financial integration, broaden access to underserved segments, and strengthen risk mitigation mechanisms. This multidimensional perspective is consistent with international best practices in MSME finance and provides a structured basis for improving financing outcomes in Indonesia.<sup>31</sup>

## **CONCLUSIONS AND SUGGESTIONS**

### **Conclusion**

This study maps the profile of Micro, Small, and Medium Enterprises (MSMEs) and examines gaps in access to finance in Indonesia using evidence from the Asian Development Bank Asia Small and Medium-Sized Enterprise Monitor 2024. By applying a multidimensional framework of financing depth, breadth, and risk, the study provides a comprehensive interpretation of MSME financing conditions beyond nominal credit expansion.

The findings indicate that MSMEs continue to dominate Indonesia's enterprise structure and play a critical role in employment generation, yet their contribution to exports remains limited. From a financing perspective, MSME credit has increased in nominal terms in recent years; however, indicators of financing depth—such as the ratio of MSME credit to GDP and its share in total bank credit—remain relatively stable. This suggests that post-pandemic credit growth reflects nominal recovery rather than

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<sup>27</sup>Asian Development Bank, *Loc.Cit.*

<sup>28</sup>ERIA, OECD, and ASEAN Secretariat, *Loc.Cit*

<sup>29</sup>Febrianti, S. R., & Fitriani, A. P. (2024). *Niqosiya: Journal of Economics and Business Research*.

<sup>30</sup>Otoritas Jasa Keuangan & Asian Development Bank. (2020). *Financial Inclusion for MSMEs through Fintech*.

<sup>31</sup>ERIA, OECD, and ASEAN Secretariat, *Loc.Cit*



structural deepening of financial integration. At the same time, financing remains concentrated in specific sectors and is predominantly allocated for working capital, while borrower-level indicators to fully assess financing breadth are still limited.

The risk dimension further reveals that MSME credit is characterized by higher non-performing loan ratios compared to the aggregate banking portfolio, highlighting the vulnerability of MSME lending and explaining the cautious stance of financial intermediaries. Although public financing schemes such as the People's Business Credit (KUR) program have played an important role in expanding access, rising non-performing loans underscore the need for strong risk governance to ensure sustainability. Overall, the results confirm that MSME financing gaps in Indonesia are multidimensional and cannot be addressed through credit expansion alone.

### **Recommendations**

Based on these findings, several policy recommendations can be proposed. First, efforts to improve MSME financing should prioritize structural deepening, particularly by encouraging greater allocation of investment-oriented financing rather than focusing predominantly on working capital credit. This requires strengthening MSME bankability through improved financial reporting, credit information systems, and targeted incentives for productive lending.

Second, expanding financing breadth requires better monitoring of access at the borrower level. Strengthening data on the number and characteristics of MSME borrowers, including first-time borrowers and underserved groups, is essential to ensure that financing policies are inclusive rather than biased toward existing borrowers. Complementary interventions such as financial literacy programs and capacity-building initiatives are also necessary to support effective access, especially for micro and women-owned MSMEs.

Third, maintaining financing quality and risk sustainability should remain a central policy concern. Risk-sharing mechanisms, such as credit guarantees and well-governed public financing programs, need to be carefully designed to balance expansion and prudence. Strengthening monitoring and evaluation frameworks for public credit schemes is crucial to prevent excessive risk accumulation and moral hazard.

Finally, alternative financing channels, including Islamic microfinance institutions and digital financial services, should be integrated into the broader MSME financing ecosystem under the principle of responsible finance. While these channels can help reduce information frictions and transaction costs, their expansion must be accompanied by robust regulatory oversight and consumer protection to ensure long-term sustainability.

### **Limitations and Future Research**

This study is subject to limitations arising from data availability, particularly the absence of consistent borrower-level indicators in the ASM dataset. Future research may extend this analysis by incorporating richer micro-level data, examining the effectiveness of specific financing instruments, or conducting comparative analyses across countries once more harmonized datasets become available. Such extensions would further enhance understanding of MSME financing gaps and inform more targeted policy interventions.


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