
Analysis Of Strategies To Improve Umkm Participation In Local Government Procurement Of Goods And Services

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Abstract

This study aims to analyze strategies to improve Micro, Small, and Medium Enterprise (MSME/UMKM) participation in local government procurement of goods and services. MSMEs have an important role in supporting regional economic growth, creating employment opportunities, and strengthening local business competitiveness. However, their involvement in government procurement remains limited due to several challenges, including low digital literacy, limited understanding of procurement procedures, weak administrative readiness, lack of access to information, limited product standardization, and difficulties in using electronic procurement platforms such as the local e-catalogue. This study uses a qualitative descriptive approach to examine the barriers faced by MSMEs and identify strategic efforts that can increase their participation in local government procurement. Data may be collected through interviews, observation, and documentation involving MSME actors, local government procurement officials, and relevant agencies responsible for MSME development. The analysis focuses on procurement accessibility, institutional support, digital readiness, business capacity, and the effectiveness of local government policies in encouraging MSME participation. The findings are expected to show that increasing MSME participation requires integrated strategies, including strengthening digital literacy, simplifying procurement information, improving business legality and certification, providing technical assistance, optimizing the local e-catalogue, and enhancing collaboration between procurement units and MSME development agencies. Local governments also need to ensure that procurement policies are inclusive, transparent, and accessible to small business actors. The study concludes that MSME participation in local government procurement can be improved through a structured strategy that combines capacity building, digital transformation, regulatory support, and continuous mentoring. These strategies are expected to support more inclusive public procurement and strengthen the contribution of MSMEs to regional economic development.

Keywords: MSMEs, UMKM, local government procurement, local e-catalogue, public procurement, business participation

INTRODUCTION

Micro, Small, and Medium Enterprises, known as UMKM in Indonesia, have an important role in supporting economic growth, creating employment, and strengthening local economies. However, their participation in local government procurement of goods and services is still not optimal. In fact, government procurement can become a strategic market opportunity for UMKM because local government spending can be used to support small business growth and improve regional economic development.

The Indonesian government has encouraged UMKM involvement in public procurement through digital procurement systems, electronic catalogues, and policies that prioritize domestic products. These policies are intended to make procurement more inclusive and provide wider access for UMKM to sell their products and services to government institutions. However, many UMKM still face barriers, such as limited knowledge of procurement procedures, lack of business legality, weak digital literacy, limited production capacity, and difficulty meeting administrative requirements.

At the local government level, these challenges may reduce the ability of UMKM to compete in procurement processes. Some UMKM may have products or services needed by the government, but they are unable to participate because they do not understand registration mechanisms, procurement rules, or technical standards. As a result, local procurement opportunities are often not fully utilized by small business actors.

Therefore, effective strategies are needed to increase UMKM participation in local government procurement. These strategies may include socialization, technical assistance, simplification of information access, improvement of digital skills, support for business legality, and stronger coordination between local governments and UMKM actors.

Based on this problem, the study titled "Analysis of Strategies to Improve UMKM Participation in Local Government Procurement of Goods and Services" is important to conduct. This research aims to analyze the obstacles faced by UMKM and identify appropriate strategies to improve their participation in local government procurement. The results are expected to provide practical recommendations for local governments in creating more inclusive, transparent, and effective procurement policies. This ratio is intended to measure the extent to which the Medan City Regional Revenue Service is able to achieve the PAD target agreed upon with the legislative body in the APBD document. The mathematical formula applied is:

PAD Effectiveness Ratio = $(\text{Realized PAD Revenue} / \text{Target PAD Revenue}) \times 100\%$

Analysis of Regional Financial Efficiency Ratio (REKD)

This ratio is used to assess the operational efficiency of local government spending in generating total regional revenue. Following national public accounting standards, the efficiency ratio is calculated using the following formula:

Financial Efficiency Ratio = $(\text{Realized Regional Expenditure} / \text{Realized Regional Income}) \times 100\%$

To provide a qualitative interpretation of the quantitative calculation results, this study adopted the standard criteria for assessing regional financial performance developed by the Decree of the Minister of Home Affairs (Kemendagri). The classification of effectiveness levels is divided into: above 100% is interpreted as Very Effective; a range of 90% to 100% is categorized as Effective; a range of 80% to 89% is classified as Quite Effective; and below 80% is declared Ineffective. Conversely, in the Efficiency Ratio measurement, the lower the percentage number indicates a higher level of savings. The efficiency criteria are classified as follows: below 60% is considered Very Efficient; a range of 60% to 80% is considered Efficient; a range of 81% to 90% is categorized as Quite Efficient; and if it exceeds 90% it is declared Less or Inefficient.

Resource-Based View Theory

The main theory recommended for this study is **Resource-Based View Theory**. This theory explains that the ability of an organization or business to compete is determined by the resources it owns and manages. These resources may include financial capacity, knowledge, skills, business legality, technology, networks, production capacity, and managerial capability. In the context of this study, UMKM participation in local government procurement is strongly influenced by their internal readiness. Many UMKM still face limitations in business legality, digital literacy, administrative skills, production capacity, product standardization, and understanding of procurement procedures. Therefore, this theory is relevant because it helps explain how strengthening UMKM resources can improve their ability to participate in government procurement

Definition of UMKM Participation in Local Government Procurement of Goods and Services

UMKM participation in local government procurement of goods and services refers to the involvement of Micro, Small, and Medium Enterprises in supplying products, works, or services needed by local government institutions through formal procurement mechanisms. This participation includes the ability of UMKM to register as suppliers, meet administrative and technical requirements, compete in procurement opportunities, and deliver goods or services according to government standards.

From a theoretical perspective, UMKM participation is not only viewed as a business activity, but also as part of an inclusive economic development strategy. Local government procurement can provide UMKM with access to a stable market, increase their business capacity, improve competitiveness, and strengthen the local economy. Therefore, UMKM participation in procurement reflects the extent to which small business actors are able to access, compete, and benefit from public spending opportunities.

Theoretical Meaning

In theory, UMKM participation in local government procurement can be understood as the interaction between business capacity, institutional support, and procurement access. UMKM will be more likely to participate when they have sufficient internal resources, clear information, legal business status, adequate product quality, digital capability, and support from local government institutions.

Conceptual Framework

According to the Resource-Based View, UMKM participation depends on the internal resources owned by the business. These resources include business legality, financial capacity, production ability, human skills, product quality, digital literacy, and administrative competence. Based on this theory, UMKM with stronger resources are more prepared to enter government procurement systems. Meanwhile, UMKM with limited resources may face difficulties in meeting procurement requirements.

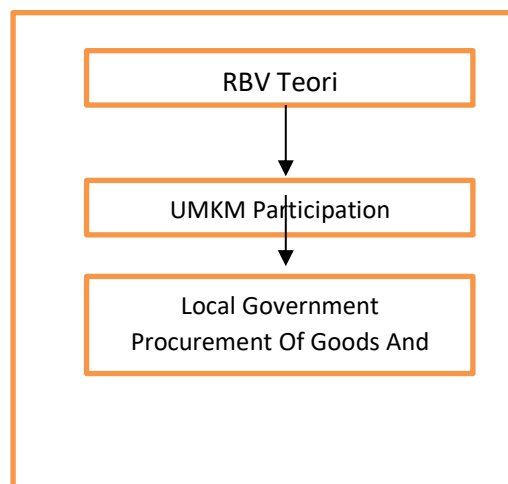


Figure 1. Integrated Framework

RESEARCH METHODS

This study uses a qualitative approach with a conceptual research method, aiming to develop a conceptual framework for strengthening public sector audits through the implementation of risk-based internal controls in local governments. This approach was chosen because the research focuses on concept development and theory integration, rather than empirical hypothesis testing. The research design is descriptive-analytical, systematically examining various relevant concepts, such as MSMEs and the procurement of goods and services in the government sector.

The data used in this study are secondary data obtained through literature review. Data sources include reputable national and international journal articles, academic textbooks, government regulations, and reports from public sector oversight and audit institutions. Sources were selected selectively, considering the relevance, credibility, and currency of the information. Data analysis was conducted using content analysis and comparative conceptual analysis. The analysis stages include identifying key concepts and comparing various models of MSME procurement procedures. The results of this analysis are used to formulate logical relationships between variables within an integrated conceptual framework (Gaber, 2020). To ensure validity and reliability, this study applied triangulation of literature sources and utilized widely recognized theories and frameworks (Maxwell & Chmiel, 2014). The research output is a conceptual framework for strengthening the procurement of goods and services in the public sector.

RESULTS AND DISCUSSION

1. Analysis of UMKM Participation in Local Government Procurement

UMKM participation in local government procurement of goods and services is an important issue because public procurement can serve as a strategic market opportunity for small business actors. In principle, local government procurement should not only function as an administrative process for purchasing goods and services, but also as an instrument for local economic empowerment. Through procurement, UMKM can gain access to a more stable market, improve business capacity, increase competitiveness, and contribute to regional economic development.

However, the participation of UMKM in local government procurement is often still limited. This condition is influenced by several internal and external factors. Internally, many UMKM face limitations in business legality, financial capacity, administrative readiness, digital literacy, product standardization, and production capability. These limitations make it difficult for UMKM to meet procurement requirements, register in electronic procurement systems, submit offers, and compete with larger suppliers.

From the Resource-Based View Theory, this problem shows that UMKM participation is strongly related to the resources owned by each business actor. UMKM with stronger resources, such as complete legal documents, adequate production capacity, good product quality, digital skills, and administrative competence, are more likely to participate in government procurement. In contrast, UMKM with limited resources tend to face barriers before entering the procurement process.

Externally, UMKM participation is also influenced by procurement regulations, institutional support, access to information, and the complexity of administrative procedures. Local government procurement often requires formal documents, tax compliance, product specifications, electronic catalogue registration, and technical standards. For UMKM that are not familiar with these requirements, the procurement system may appear difficult and exclusive. Based on Institutional Theory, UMKM participation is shaped by formal rules, policies, and institutional mechanisms. If procurement regulations are not accompanied by clear socialization, technical assistance, and simplified access, UMKM may have difficulty participating even when opportunities are available. Therefore, the problem is not only related to UMKM readiness, but also to how local government institutions create an accessible and supportive procurement environment.

2. Barriers Faced by UMKM in Local Government Procurement

The first major barrier is the limited understanding of procurement procedures. Many UMKM do not fully understand how to access procurement information, register as suppliers, prepare administrative documents, and submit bids through digital systems. This lack of understanding reduces their confidence and ability to participate in procurement activities.

The second barrier is business legality. Some UMKM may not yet have complete business permits, tax identification numbers, product certificates, or other required documents. Since government procurement requires formal compliance, incomplete legality becomes a serious obstacle. This issue shows that many UMKM still operate informally or semi-formally, making it difficult for them to enter the public procurement market.

The third barrier is digital literacy. Local government procurement increasingly uses digital platforms, electronic catalogues, and online registration systems. UMKM with low digital capability may find it difficult to use these systems. As a result, procurement digitalization, which is intended to improve transparency and efficiency, may unintentionally exclude UMKM that are not technologically prepared.

The fourth barrier is limited production capacity. Government procurement often requires suppliers to provide goods or services in specific quantities, quality standards, and delivery schedules. Some UMKM may have good products, but they may not be able to meet large-scale demand, consistent quality, or timely delivery. This condition affects their ability to compete with more established suppliers.

The fifth barrier is limited access to information and assistance. Procurement opportunities may be available, but UMKM may not receive timely and clear information about them. In addition, the lack of training and mentoring from local government agencies can make UMKM less prepared to participate. This indicates that information access and institutional support are essential elements in improving UMKM participation.

3. Discussion Based on Theoretical Perspectives

From the perspective of Resource-Based View Theory, the participation of UMKM in local government procurement depends on their internal capacity. UMKM need sufficient resources to meet procurement requirements, including legal documents, financial readiness, product quality, human resource capability, digital skills, and managerial competence. Therefore, strategies to improve participation must focus on strengthening UMKM capacity. Training, mentoring, business legality assistance, digital literacy programs, and product standardization support are important interventions.

From the perspective of Institutional Theory, UMKM participation is influenced by the structure of rules and institutional support provided by the government. Local governments must

ensure that procurement policies are transparent, accessible, and understandable for small business actors. Complicated procedures, unclear information, and weak assistance can discourage UMKM from participating. Therefore, institutional reform is needed to make procurement systems more inclusive.

From the perspective of Stakeholder Theory, improving UMKM participation requires collaboration among various actors. Local governments, procurement units, MSME offices, business associations, financial institutions, and UMKM actors must work together. Local governments can provide procurement opportunities and policy support. Procurement units can provide technical guidance. MSME offices can assist with legality and capacity building. Business associations can help disseminate information and encourage UMKM readiness.

From the Public Procurement Theory perspective, procurement should be viewed not only as a purchasing activity, but also as a development policy tool. Local government spending can be directed to support local business actors, create employment, and strengthen regional economic circulation. Therefore, increasing UMKM participation in procurement is part of a broader strategy to achieve inclusive and sustainable local economic development.

4. Strategies to Improve UMKM Participation

Several strategies can be applied to improve UMKM participation in local government procurement. First, local governments need to conduct regular socialization regarding procurement procedures, electronic catalogue registration, required documents, and technical standards. Socialization should use simple language and practical examples so that UMKM can easily understand the process.

Second, technical assistance should be provided to help UMKM prepare business documents, register in procurement platforms, upload product information, and submit offers. Assistance is important because many UMKM may not be able to participate independently without guidance.

Third, local governments need to improve access to procurement information. Procurement opportunities should be published clearly, openly, and through media that are easily accessed by UMKM. Information transparency can reduce uncertainty and increase UMKM confidence to participate.

Fourth, digital literacy programs should be strengthened. Since procurement systems increasingly rely on digital platforms, UMKM must be trained to use online systems, electronic catalogues, and digital communication tools. Digital capability is no longer optional; it has become a basic requirement for participation in modern procurement.

Fifth, business legality support should be expanded. Local governments can collaborate with relevant agencies to help UMKM obtain business identification numbers, tax documents, product certification, and other legal requirements. This strategy is important because legal readiness is one of the main entry points into government procurement.

Sixth, procurement policies should encourage local supplier participation. Local governments may design procurement packages that are suitable for UMKM capacity, especially for small-value procurement or local product procurement. This can prevent procurement opportunities from being dominated only by large suppliers.

5. Implications of the Discussion

The discussion shows that low UMKM participation is not caused by a single factor. It is the result of a combination of limited internal business capacity, complex institutional requirements, weak information access, and insufficient stakeholder coordination. Therefore, the strategy to improve UMKM participation must be comprehensive.

For local governments, the implication is that procurement policy must be designed not only to achieve efficiency and compliance, but also to support local economic empowerment. For UMKM, the implication is that they need to improve their readiness, professionalism, legality, and digital capability. For supporting institutions, the implication is that mentoring and coordination are necessary to bridge the gap between procurement opportunities and UMKM capacity.

CONCLUSION

1. Based on the analysis, UMKM participation in local government procurement of goods and services is influenced by internal readiness and external institutional support. Internally, UMKM need adequate resources, such as business legality, administrative skills, digital capability, product quality, and production capacity. Externally, local governments need to provide transparent information, accessible procurement systems, technical assistance, and inclusive procurement policies.
2. Therefore, improving UMKM participation requires integrated strategies, including socialization, mentoring, digital literacy improvement, legality support, product standardization, and stronger stakeholder coordination. These strategies are expected to increase UMKM access to government procurement, strengthen local business competitiveness, and support more inclusive local economic development.

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