

## **A PORTRAIT OF THE MICRO AND SMALL INDUSTRY MAP IN INDONESIA: IDENTIFYING GROWTH CENTERS AND REGIONAL DISPARITIES**

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### **ABSTRACT**

This research aims to map the micro and small industry (MSI) landscape in Indonesia by identifying growth centers and existing regional disparities. MSIs are a crucial pillar of the national economy, but their uneven distribution often creates economic disparities between regions. The study used a descriptive quantitative research method to analyze data and provide a comprehensive overview of MSI dynamics across various provinces. The analysis focused on distribution patterns, dominant industry types, factors supporting growth, and the obstacles encountered. The results show a significant spatial dominance of MSIs on the island of Java, particularly in provinces with more advanced infrastructure and better market access. Conversely, significant regional disparities were found in eastern Indonesia, where the number of MSIs is still relatively low and their growth is hampered by limited capital, technology access, and inadequate policy support. This study concludes that targeted, region-specific policy interventions are essential to promote more equitable economic growth. The implications of this research include improving access to micro-financing, providing relevant skills training, and developing supporting infrastructure in lagging regions.

**Key words:** micro and small industry (msi); regional disparity; growth centers; economic equity; industry map

### **INTRODUCTION**

Micro, Small, and Medium Enterprises (MSMEs) are a major pillar of Indonesia's economy, contributing nearly 60% of the national Gross Domestic Product (GDP) and absorbing a large share of the workforce (Ismail et al., 2023). MSMEs play an important role in economic growth, increasing community income, improving living standards, and strengthening purchasing power (Candrawati & Aji Nugroho, 2024; Wahyudi et al., 2024). In addition, SMEs contribute to job creation, income equality, and poverty reduction by providing economic opportunities for groups that are often unreached by the formal sector (Mulyadi, 2018; Utami, 2019). Their active involvement makes MSMEs an essential foundation for sustainable economic development in Indonesia.



**Figure 1. Map of the Distribution of 2022 IMK Provinces**

Despite their significant contribution, the distribution of MSMEs in Indonesia remains uneven across regions (Dhiyaa'ulhaq et al., 2023). MSMEs are concentrated in areas with better infrastructure and market access, particularly on Java Island, while eastern regions such as Papua, Maluku, and Nusa Tenggara continue to experience limited industrial development (Tohohan Rohani Silaban & Muhammad Yasin, 2025). Data from 2022 show that West Java, Central Java, and East Java dominate the concentration of micro and small industries, while North Sumatra and South Sulawesi function as regional growth centers outside Java. In contrast, eastern Indonesia

records relatively low industrial intensity, reflecting persistent regional disparities (Sofia et al., 2022). This imbalance may hinder equitable and sustainable economic development across the country.

Given the strategic role of MSMEs, a comprehensive understanding of their distribution patterns, regional growth centers, and development challenges is essential. However, studies examining spatial disparities and factors influencing MSME development remain limited. Therefore, further research is needed to analyze MSME distribution patterns, identify regional inequalities, and formulate more inclusive development strategies that support balanced economic growth throughout Indonesia.

## METHOD

This study uses a comparative descriptive research design with a quantitative approach to analyze the distribution and characteristics of micro and small industries in Indonesia. Secondary data used are sourced from the Central Statistics Agency (BPS) in 2023 regarding the number of micro and small-scale industrial companies by province. The analysis was conducted on 34 provinces with complete data, excluding four provinces in Papua that did not have small-scale industrial data. Provinces are classified into two categories based on industrial concentration. Dense provinces are defined as those with a total number of micro and small industries above the national average, while potential provinces are those with a high ratio of small to micro industries but a total industry still below the national average. The analysis uses descriptive statistics, distribution analysis, and comparisons between provincial categories to identify patterns and characteristics of micro and small industries in Indonesia.

## RESULTS AND DISCUSSION

### Overview of Indonesian Micro and Small Industries

Based on data from the Central Statistics Agency (BPS), Indonesia has a total of 4,181,128 micro-industrial businesses and 319,456 small-scale industrial businesses spread across 34 provinces. Micro-enterprises account for 92.9% of the total, while small-scale industries account for only 7.1%. This distribution demonstrates Indonesia's industrial structure, which is still dominated by very small-scale businesses with limited production capacity and capital.

**Table 1. Distribution of Micro and Small Industries in Indonesia in 2023**

No	Province	Micro Industry	Small Industry	Total	Small/ Micro Ratio
1	East Java	862,057	115,414	977,471	13.4
2	Central Java	811,039	51,887	862,926	6.4
3	West Java	584,903	56,736	641,639	9.7
4	West Nusa Tenggara	131,958	18,004	149,962	13.6
5	Special Region of Yogyakarta	129,289	4,736	134,025	3.7
6	East Nusa Tenggara	124,566	1,374	125,940	1.1
7	Bali	120,752	5,035	125,787	4.2
8	North Sumatra	119,539	7,368	126,907	6.2
9	South Sulawesi	119,613	4,313	123,926	3.6
10	Aceh	106,527	3,999	110,526	3.8

Source: BPS data processed 2025

The concentration of micro and small industries shows significant disparities across provinces. The top ten provinces control 75.5% of the national industry, with the top five provinces East Java (862,057 micro units), Central Java (811,039 micro units), West Java (584,903 micro units), West Nusa Tenggara (131,958 micro units), and Yogyakarta Special Region (DI Yogyakarta) (129,289 micro units) controlling 56.4% of the national micro industry. For small industries, the distribution follows a similar pattern but with higher concentration. East Java leads with 115,414 units (36.1% of the national total), followed by West Java (56,736 units), Central Java (51,887 units), West Nusa Tenggara (18,004 units), and Jakarta (10,920 units). These five provinces control 79.4% of the national small industry, demonstrating even more extreme disparities than for micro industries.

### Comparison of Densely Populated Provinces and Potential Provinces

#### Definition of Densely Populated Provinces and Potential Provinces

A densely populated province is an administrative region with a very high population density per unit area. This density is often concentrated in urban areas, which serve as economic, political, and service centers. These provinces are typically highly developed but also face significant challenges due to population pressure (Susanti, 2013). Indicators of a densely populated province include population density, urbanization rate, building and traffic density, infrastructure burden, and pollution levels (Zhao et al., 2022).

A potential province is a region with abundant natural resources (SDA) or human resources (SDM) that have not been fully utilized optimally for economic development (Sa'diah, 2023). These provinces typically have medium to low population densities, but hold significant opportunities for growth and greater contribution to the national economy. Indicators of a potential province include the availability and economic value of natural

resources, investment levels (PMA and PMDN), economic growth, access to and quality of infrastructure, and the human development index. The following table compares the classification of densely populated and potential provinces (Leasiwal et al., 2022).

**Table 2. Classification of Dense Provinces vs. Potential Provinces**

Category	Province	Total Industry	Small/Micro Ratio
Populous Province	East Java	977,471	13.4
	Central Java	862,926	6.4
	West Java	641,639	9.7
	West Nusa Tenggara	149,962	13.6
	Special Region of Yogyakarta	134,025	3.7
Provinsi Potensial	DKI Jakarta	79,992	15.8
	Banten	97,092	6.8
	East Kalimantan	35,641	3.1
	Riau islands	26,267	1.5
	North Sumatra	126,907	6.2

Source: BPS data processed 2025

**Table 3. Regional Distribution of Micro and Small Industries**

Region	Number of Provinces	Micro Industry	Small Industry	Total Percentage
Java	6	2,814,018	252,029	68.1%
Sumatra	10	703,453	20,502	16.1%
Sulawesi	6	355,233	15,153	8.2%
Kalimantan	5	180,264	6,324	4.1%
East Nusa Tenggara	7	340,111	19,578	8.0%

Source: BPS data processed 2025

A comparative analysis using two key indicators reveals distinct characteristics between densely populated and potential provinces. Densely populated provinces like East Java and Central Java have a very large industrial base but with varying levels of transformation. East Java performed best with a transformation ratio of 13.4%, while Central Java was still dominated by micro-industry with a ratio of only 6.4%. Potential provinces exhibited interesting structural transformation characteristics. DKI Jakarta led the way with the highest transformation ratio of 15.8%, indicating a business ecosystem that supports the growth of small industries. Although the total industrial base is relatively small, its high transformation capacity indicates significant development potential if supported by appropriate policies.

### Spatial Distribution Analysis

**Table 4. Provincial Ranking Based on Structural Transformation Ratio**

Ranking	Province	Ratio Small/ Micro	Category
1	DKI Jakarta	15.8	Very high
2	West Nusa Tenggara	13.6	High
3	East Java	13.4	High
4	West Java	9.7	Very high
5	Banten	6.8	Medium
6	Central Java	6.4	Medium
7	North Sumatra	6.2	Medium
8	Riau	3.5	Low
9	Bali	4.2	Low
10	Aceh	3.8	Low

Source: BPS data processed 2025

**Table 5. Industrial Concentration by Geographic Region**

Region	Contribution of Micro Industry	Small Industry Contribution	Index
Jawa	67.3%	78.9%	Very high
Sumatera	16.8%	6.4%	Medium
Sulawesi	8.5%	4.7%	Low
Kalimantan	4.3%	2.0%	Very Low

Source: BPS data processed 2025

The categorization of structural transformation in this study is based on the theory of economic transformation developed by Kuznets (1966) and Chenery & Syrquin (1975), which defines transformation as a shift from traditional to modern sectors with increased productivity. The categorization threshold adopts the framework from

the World Bank (2020) and UNIDO (2019): the category "Very High" (>15%) indicates optimal access to capital and technology; "High" (10-15%) indicates a thriving business ecosystem; "Medium" (5-10%) reflects an ongoing but not yet optimal transformation process (Rodrik, 2016); and "Low" (<5%) indicates the dominance of the traditional sector with structural limitations.

The spatial distribution of micro and small industries shows a high concentration on Java, which accounts for 67.3% of the total micro and 78.9% of the total national small industries. This concentration can be explained by Java's comparative advantage in terms of infrastructure, market access, labor availability, and a more mature business ecosystem. This very high concentration index creates significant regional disparities compared to other regions.

Sumatra ranks second, contributing 16.8% of micro-industries but only 6.4% of the national small-scale industries. This disparity indicates the potential for suboptimal structural transformation in Sumatra. Provinces like North Sumatra performed relatively well with a transformation ratio of 6.2%, but still lag behind provinces in Java.

Eastern Indonesia exhibits untapped potential. Sulawesi, Kalimantan, and Eastern Indonesia collectively account for only 20.9% of the nation's micro and 12.8% of small industries, despite possessing abundant natural resources. The low industrial concentration in this region indicates the need for specific policies to encourage the development of micro and small industries through infrastructure improvements, access to financing, and local market development.

**Table 6. Correlation between Total Industry and Ratio**

Province	Total Industry	Ratio (%)	Category
East Java	977,471	13.4	Optimal
Central Java	862,926	6.4	Sub-optimal
DKI Jakarta	79,992	15.8	Potential
East Nusa Tenggara	125,940	1.1	Left behind

Source: BPS data processed 2025

The ratio of small-scale to micro-scale industries can be used as an indicator of regional economic structural transformation. Analysis shows that only one province (DKI Jakarta) achieved a very high transformation rate with a ratio of 15.8%. This indicates optimal access to capital, technology, and markets, enabling micro-scale industries to develop into more productive small-scale industries.

Provinces in the high transformation rate, such as East Java (13.4%) and West Nusa Tenggara (13.6%), demonstrate an ideal combination of large industrial numbers and a well-functioning upgrading process. These two provinces can serve as development models for other provinces in achieving optimal structural transformation.

Conversely, 27 provinces remain in the low transformation rate with ratios below 5%. This indicates systemic limitations in access to financing, technology, and markets that hinder the development of micro-scale industries on a larger scale. This disparity has serious implications for productivity and competitiveness between provinces.

### Development Challenges and Opportunities

Data analysis identifies several key challenges in the development of micro and small industries. First, the extreme distribution inequality between Java and outside Java creates inefficiencies in the utilization of resources and national economic potential (Wijayanti & Putri, 2023). Second, the dominance of micro industries indicates limited access to capital, technology, and markets, which hinders growth and productivity improvement (Rinardi et al., 2023).

However, the data also points to significant opportunities for development. Provinces outside Java, such as North Sumatra, South Sulawesi, and East Kalimantan, show significant potential, with a significant number of industries and promising transformation rates. Industrial development in these regions could reduce regional inequality and create more inclusive economic growth (Abdul Aziz et al., 2025).

Another opportunity is seen in the large micro industry base, which can serve as a source of structural transformation (Rinaldi et al., 2022). With appropriate policy support, better access to financing, and capacity building programs, some micro-industries can be transformed into more productive and competitive small-scale industries (Hasran and Krisna Gupta, 2023).

### CONCLUSION

The 2023 portrait of Indonesia's micro and small industries shows a structure dominated by micro-enterprises (92.9%), with a high concentration on the island of Java (67.3% micro-industries and 78.9% small-industries). A comparison between densely populated and potential provinces reveals distinct characteristics: densely populated provinces are characterized by a large number of industries dominated by micro-enterprises, while potential provinces exhibit a better transformation rate toward small-scale industries.

Spatial distribution inequality remains a major challenge, with Java controlling the majority of national industry, while eastern Indonesia remains lagging behind. Structural transformation from micro- to small-scale industries has been slow, with only a few provinces showing significant transformation rates. This situation indicates the need for more targeted policies to encourage equitable distribution of industry and accelerate structural transformation.

Policy recommendations include the development of industrial estates outside Java, increasing access to financing for micro-industries, capacity and technology development programs, and strengthening business ecosystems in underdeveloped regions. This strategy is expected to reduce regional disparities, increase industrial productivity, and create more inclusive and sustainable economic growth.

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