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A Deeper Look into the Indonesian Government's Fiscal Strategies on SMEs

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Abstract

This study examines the Indonesian government's fiscal strategies aimed at strengthening the small and medium-sized enterprises (SMEs) sector. It focuses on how targeted taxation policies, subsidies, and stimulus packages support SME growth, resilience, and integration into national economic development agendas. In the post-pandemic recovery period, SMEs play a crucial role in economic revitalisation. Understanding fiscal interventions is vital to enhance their sustainability, competitiveness, and contribution to inclusive growth in Indonesia. This study concentrates on fiscal tools such as tax relief, credit guarantees, and grants within Indonesia. It does not evaluate monetary policies, informal sector dynamics, or the performance of individual SME sectors. It addresses two central research questions: How do fiscal strategies impact the growth and resilience of Indonesian SMEs? And what are the main challenges in implementing effective fiscal support for this sector? A qualitative research methodology is employed, incorporating policy reviews, stakeholder interviews, and the analysis of government reports. By examining fiscal planning, budget allocations, and implementation outcomes, the study evaluates the coherence of Indonesia's fiscal approach and its real-world effects across both national and regional levels. Findings suggest that while fiscal strategies have had a positive impact on SME development, several persistent obstacles—such as bureaucratic inefficiencies, unequal access to support, and weak coordination at the local level—undermine their full potential. The study concludes by recommending more inclusive policy mechanisms, simplified administrative procedures, and improved intergovernmental coordination. Future research should explore how fiscal decentralisation affects SME support and examines the gender and sector-specific dimensions of fiscal interventions.

Keywords

SMEs, Fiscal Policy, Economic Development, Government Strategy, Indonesia

Introduction

Indonesia's economy is diverse and dynamic, with Small and Medium Enterprises (SMEs) playing a key role. SMEs represent about 99% of businesses and generate around 97% of the workforce (Tambunan, 2007). SMEs spur innovation by being agile and adaptable to market changes in a fast-evolving economy. Also, SMEs contribute around 60% to Indonesia's GDP, particularly in the agricultural sector in rural area (Ssenyonga, 2021). This community-based contribution fosters resilience, vital for a nation facing socio-economic challenges. But SMEs often face challenges like limited access to finance, poor infrastructure, and regulatory barriers. In response, the government has implemented policies, such as credit guarantees and fiscal incentives, to empower SMEs and boost their innovation and growth (Amaruzzaman *et al*., 2022).

The COVID-19 pandemic has underscored the vulnerability of SMEs, which were disproportionately affected by the crisis. In response, the Indonesian government has intensified its fiscal support strategies, recognising that the recovery of SMEs is critical to overall economic stability. For instance, the government allocated approximately IDR 123 trillion (around USD 8.5 billion) in fiscal stimulus specifically aimed at supporting SMEs during the recovery phase (Ssenyonga, 2021). Fiscal support measures like cash transfers, tax relief, and soft loans are vital for assisting SMEs in recovering. According to a study by Isa *et al*. (2024), such financial interventions not only aid in immediate recovery but also build long-term resilience by enabling SMEs to invest in digitalisation and innovation.

Fiscal strategies play a crucial role in SMEs. Targeted financial support, tax incentives, and credit access strengthen SME resilience, enabling them to handle economic shocks and boost job creation. According to Chugunov and Makohon (2019), effective fiscal strategies can boost economic growth by promoting entrepreneurship and innovation. The Indonesian government has acknowledged the potential of the SME sector, which comprises about 99% of businesses and employs around 97% of the workforce, by implementing fiscal policies to strengthen it (Mariyudi, 2019).

Inclusive, regionally coordinated fiscal mechanisms are essential due to the diverse SME structures across Indonesia, where local economic, cultural, and social factors create varied operating conditions. Suhendra and Amir (2006) highlight that fiscal decentralisation can empower local governments to tailor fiscal policies that better meet the needs of SMEs in their regions. Lo and Sugiarto (2021) argue that strategic planning in SMEs, backed by government fiscal policies like grants and subsidies, can boost competitiveness and innovation by enabling investments in technology and skills development. Fiscal strategies have positively impacted SMEs in Indonesia, as evidenced by case studies showing increased growth rates and job creation in regions with targeted local policies. (Maharjan, 2024).

The primary objective of this study is to analyse the effectiveness of Indonesia's fiscal policies on small and medium-sized enterprises (SMEs) while assessing the systemic and operational challenges that impede their implementation. Recent research by Zakaria (2024) highlights the critical relationship between fiscal policy and credit access for SMEs, indicating that inadequate fiscal measures can lead to increased borrowing costs and hinder growth opportunities.

The research questions will be addressed are: How do fiscal strategies impact the growth and resilience of Indonesian SMEs? And what are the main challenges in implementing effective fiscal support for this sector? This study will delve into the fiscal policy and financial facility dynamics, evaluating how fiscal strategies can be refined to better support the SME sector, which is vital for Indonesia's economic development. By investigating these factors, we aim to provide actionable insights that can enhance the efficacy of government policies aimed at fostering a robust SME environment.

Literature review

Small and Medium Enterprises (SMEs) play a pivotal role in the macroeconomic landscape of Indonesia. According to Cahyadin (2017), SMEs account for approximately 99% of all businesses in Indonesia, employing around 97% of the workforce. This statistic highlights the crucial role of SMEs in reducing unemployment and supporting livelihoods for millions. Their decentralised nature enables them to flourish in rural areas, promoting regional economic development and curbing urban migration. By relying on local resources and labor, SMEs stimulate local economies and foster community self-sufficiency.

In terms of innovation, SMEs are often more agile and adaptable than larger corporations, enabling them to respond quickly to changing market demands and consumer preferences. Tambunan (2008) highlights that SMEs not only contribute to economic growth but also drive technological advancements and creative solutions through their inherent flexibility. Furthermore, the contribution of SMEs to Indonesia's gross domestic product (GDP) is noteworthy. As reported by Kania *et al*. (2021), SMEs contribute approximately 60% to the national GDP, emphasising their integral role in sustaining economic growth. The growth of SMEs also correlates with increased domestic consumption, as they often cater to local markets. This relationship between SMEs and GDP growth illustrates the multiplier effect of small businesses on the broader economy, where increased SME activity can lead to higher overall economic performance.

Rural development is another critical area where SMEs have a substantial impact. By establishing businesses in rural areas, SMEs create job opportunities that can significantly reduce poverty levels. The establishment of village-owned enterprises, as discussed by Kania *et al*. (2021), has proven effective in empowering local communities, fostering entrepreneurship, and enhancing economic resilience. These enterprises not only provide employment but also contribute to the development of local infrastructure, such as roads and markets, which further stimulates economic activity in these regions.

Globally, fiscal policy interventions have been identified as a crucial mechanism for empowering SMEs, particularly in emerging economies. The literature suggests that targeted fiscal measures, such as tax incentives and subsidies, can significantly enhance the operational capabilities of SMEs. Nwosu (2020) argues that a supportive fiscal environment is essential for fostering entrepreneurship and ensuring that SMEs can compete effectively in the market

In many emerging economies, including Indonesia, government support through fiscal policy has been instrumental in addressing the unique challenges faced by SMEs. Tambunan (2008) highlights that government interventions, such as access to credit and financial assistance, are vital for SMEs, especially in the early stages of their development. These interventions can facilitate capital accumulation, enabling SMEs to expand their operations and improve productivity. The provision of financial support is particularly crucial in the context of economic downturns, where SMEs often face liquidity constraints.

Moreover, the global literature emphasises the importance of creating an enabling environment for SMEs through regulatory reforms. Cahyadin (2017) notes that simplifying bureaucratic processes and reducing regulatory burdens can empower SMEs to operate more efficiently. Fiscal policy interventions can also play a significant role in promoting innovation among SMEs. As highlighted by Kania *et al*. (2021), investment in research and development (R&D) is often limited in SMEs due to financial constraints. Therefore, government incentives for R&D can stimulate innovation, allowing SMEs to develop new products and services that meet market demands. This not only boosts their competitiveness but also contributes to the overall advancement of the national economy.

The fiscal support frameworks in Malaysia, Vietnam, and China provide insightful comparisons to Indonesia's economic landscape. In Malaysia, the government has implemented various fiscal policies aimed at enhancing the entrepreneurial ecosystem, particularly in rural areas. For instance, Kamarudin *et al*. (2020) highlight initiatives that promote creative village development, which have proven effective in sustaining rural livelihoods. These policies often include grants and low-interest loans aimed at small and medium enterprises (SMEs), which are crucial for economic resilience. In contrast, Indonesia's fiscal support has been characterised by a slower implementation of similar policies, which may hinder the growth of its SME sector.

Vietnam's approach to fiscal support has also been noteworthy. The government has actively promoted SME development through tax incentives and financial assistance programmes. According to Tambunan *et al*. (2007), these measures have resulted in a significant increase in the number of SMEs, contributing to economic growth and job creation. Indonesia could benefit from adopting similar strategies, as the current fiscal policies appear less robust in comparison, particularly when addressing the unique challenges faced by local entrepreneurs.

China's fiscal support model stands out due to its comprehensive and aggressive approach to SME development. The Chinese government provides extensive subsidies and support for innovation, which has led to rapid industrialisation and economic expansion. As noted by Tambunan and Xiangfeng (2006), this model has allowed China to become a global manufacturing powerhouse. Indonesia's fiscal policies could be enhanced by integrating elements from China's model, particularly in terms of fostering innovation and competitiveness among SMEs.

Indonesia's regulatory framework for SMEs includes legal mechanisms for fiscal support, including taxation policies and credit guarantees. Judijanto (2024) highlights that the taxation policy significantly impacts MSME compliance burdens, which can hinder business growth. Tax regulations can raise operational costs for SMEs, highlighting the need for simpler policies that facilitate compliance and support fiscal sustainability. Despite existing frameworks, gaps in local government capacity and intergovernmental coordination remain. Triastuti (2021) notes that local governments often lack the necessary resources and expertise to effectively empower SMEs, which diminishes the potential impact of fiscal support initiatives. This disconnect underscores the need to improve local governance to ensure effective policy implementation at the grassroots level.

Methods

The research employs a qualitative methodology to explore the significance of the Indonesian government's fiscal strategies on SMEs. The strategies serve as essential tools for stimulating SME development, enhancing resilience, and integrating SMEs into the broader economic framework. The study integrates a synthesis of case studies, policy reviews, and literature analyses, providing a comprehensive framework for understanding the challenges and opportunities posed by the government's commitment to supporting SMEs through fiscal measures. The methodology focuses on capturing nuanced insights into the need to align fiscal strategies with SME needs for effective resource allocation.

In-depth literature review and bibliographic analysis were selected to highlight targeted policies and support mechanisms, as the government continues to recognise the importance of SMEs. These approaches examine fiscal support frameworks and the critical role of fiscal policy interventions in empowering SMEs, particularly in emerging economies. Additionally, policy analyses were conducted to evaluate Indonesia's diverse cultural landscape in bridging access gaps and implementing cohesive fiscal policies. Understanding these cultural nuances is essential for crafting effective fiscal support mechanisms that resonate with local entrepreneurs

The analysis identifies the potential of SMEs for national development, entrepreneurship, and navigating the complexities of its diverse economy. Therefore, inclusive and regionally coordinated fiscal mechanisms will remain critical in ensuring the sustainable growth of SMEs. By aligning qualitative secondary data with a contextual understanding of the region's socioeconomic landscape and the SMEs, the research provides actionable insights into enhancing its fiscal policies to better support the growth of SMEs, ultimately driving economic development and resilience.

Result and Discussion

Readiness and Coordination of Indonesia's Fiscal Policy Institutions

The preparedness of national and sub-national institutions in Indonesia to effectively manage fiscal support for Small and Medium Enterprises (SMEs) is a critical factor in fostering economic resilience, particularly in the wake of challenges such as the COVID-19 pandemic. The Indonesian government has recognised the importance of SMEs, which contribute approximately 60% to the nation's GDP and employ around 97% of the workforce (Jameaba, 2020). Despite their significance, the institutional framework tasked with supporting these enterprises often struggles with coordination and resource allocation, leading to inefficiencies in fiscal support delivery.

One of the primary challenges faced by sub-national governments is the disparity in financial capacity and administrative capabilities across regions. Lewis and Oosterman (2011) highlight that capital spending at the sub-national level varies significantly, with some regions lacking the necessary financial instruments to mobilise funds effectively. This inconsistency can hinder the timely and adequate provision of fiscal support to SMEs, particularly in less developed areas. For instance, regions with limited access to credit markets may find it difficult to implement government-backed loan schemes designed to support local businesses, exacerbating existing inequalities.

Moreover, the institutional readiness of local governments to implement fiscal policies is often undermined by insufficient human resources and training. The capacity of local officials to understand and apply fiscal policies effectively is crucial for the success of SME support initiatives. Fanany, Fanany, and Kenny (2010) argue that capacity building is essential for enhancing the skills and knowledge of government officials, enabling them to design and execute policies that align with the needs of SMEs. Without adequate training, even well-intentioned fiscal policies may fail to achieve their objectives, resulting in wasted resources and missed opportunities for economic growth.

The role of technology in enhancing institutional preparedness cannot be overlooked. With the increasing digitisation of fiscal management processes, local governments can leverage digital tools to improve transparency and efficiency in the allocation of resources. For example, the implementation of e-budgeting systems can allow for better tracking of fiscal support disbursements, thereby enhancing accountability and fostering trust among stakeholders (Wibowo *et al.*, 2022). However, the successful integration of technology requires a robust infrastructure and a skilled workforce, which many regions still lack.

Training and capacity-building initiatives are vital for ensuring that government officials at both national and sub-national levels are equipped to implement effective fiscal policies for SMEs. The alignment of policies across different levels of government is essential for creating a coherent framework that supports the growth and sustainability of SMEs. However, there is often a disconnect between national policies and local implementation, which can lead to inefficiencies and confusion among stakeholders.

To address these challenges, the Indonesian government has initiated various training programmes aimed at enhancing the skills of local government officials. These programmes focus on areas such as financial management, policy formulation, and stakeholder engagement (Fanany *et al*., 2010). By providing targeted training, the government aims to empower local officials to better understand and implement fiscal policies that align with national objectives. For example, training workshops on budget planning and management have been introduced to help local governments effectively allocate resources for SME support initiatives.

Despite these efforts, significant gaps remain in the capacity of local governments to implement national policies effectively. Wibowo *et al*. (2022) highlight that many local officials lack the necessary skills and knowledge to navigate complex fiscal regulations, which can hinder the successful execution of SME support programmes. Furthermore, the effectiveness of training initiatives is often undermined by a lack of follow-up and support, leading to a situation where newly acquired skills are not translated into practice.

Policy alignment across government levels is another critical aspect of ensuring effective fiscal support for SMEs. National policies must be adaptable to local contexts, taking into account the unique challenges and opportunities faced by different regions. This requires continuous dialogue and collaboration between national and sub-national governments to ensure that policies are not only relevant but also feasible for local implementation. For instance, the government could establish regular forums for local officials to share their experiences and challenges in implementing fiscal policies, thereby fostering a culture of collaboration and learning.

Design and Implementation Shortcomings in the Small and Medium Enterprises Sector

The execution of fiscal policy in Indonesia is fraught with significant challenges, primarily stemming from bureaucratic complexity and unclear targeting mechanisms. The bureaucratic landscape in Indonesia is often characterised by overlapping authorities and fragmented structures, which complicates the implementation of fiscal policies. According to Pramusinto and Quah (2016), the weak central authority exacerbates the difficulties faced by local governments in executing national policies, leading to inconsistencies and inefficiencies. This bureaucratic fragmentation results in a lack of coherence in policy delivery, where local agencies may not align with national objectives, thus hindering effective fiscal management.

Moreover, unclear targeting mechanisms further complicate the execution of fiscal policies. Many programmes intended to support specific demographics, such as low-income families or small and medium enterprises (SMEs), often fail to reach their intended beneficiaries due to poorly defined eligibility criteria. Doraisami (2013) highlights that during the global financial crisis, Indonesia's fiscal response was hampered by such ambiguities, leading to delays in fund disbursement and a lack of clarity on who should benefit from these initiatives. This lack of precision not only affects the efficacy of fiscal policies but also erodes public trust in government interventions.

The uneven disbursement of funds is another critical issue that plagues fiscal policy execution. Research indicates that funds allocated for development projects often do not reach the regions that need them the most. For instance, Hamilton-Hart and Schulze (2016) note that disparities in fund allocation can arise from bureaucratic inefficiencies and a lack of accountability, resulting in some regions receiving disproportionate amounts of fiscal support while others languish without adequate resources. This uneven distribution undermines the overall objectives of fiscal policy, which aims to promote equitable growth across the nation.

Furthermore, the challenges in policy execution are exacerbated by a lack of coordination among various governmental levels. The central government may formulate policies without adequately consulting local authorities, leading to a disconnect between policy intent and ground realities. As highlighted by Fitriani (2025), this disconnect can lead to ineffective spending, where funds are allocated without a clear understanding of local needs, further complicating the execution of fiscal policies.

Small and medium enterprises (SMEs) play a vital role in Indonesia's economy, contributing significantly to employment and economic growth. However, administrative burdens associated with fiscal support programmes often deter SMEs from participating in these initiatives. The complexity of application processes, coupled with stringent documentation requirements, can overwhelm smaller businesses that typically lack the resources to navigate such bureaucratic hurdles. As highlighted by Doraisami (2013), these barriers can lead to a significant underutilisation of available fiscal support, ultimately stifling the potential growth of SMEs.

The administrative challenges faced by SMEs are further compounded by a lack of awareness regarding the available fiscal support programmes. Many small business owners are either unaware of these initiatives or do not understand how to access them. This lack of information can be attributed to insufficient outreach efforts by the government, particularly in rural areas where SMEs are prevalent. Hamilton-Hart and Schulze (2016) emphasise that the effectiveness of fiscal policies is contingent on the ability of SMEs to engage with them, and without proper dissemination of information, many businesses remain excluded from potential benefits.

Additionally, the time-consuming nature of compliance with fiscal regulations can deter SMEs from seeking assistance. The requirement for detailed financial reporting and adherence to various regulatory frameworks can be particularly burdensome for smaller enterprises that may not have dedicated accounting staff. This situation is exacerbated by the perception that the benefits of participation do not outweigh the costs associated with compliance. As noted by Pramusinto and Quah (2016), such perceptions can lead to a culture of disengagement among SMEs, further limiting their access to fiscal support.

Moreover, the fiscal policies designed to support SMEs often fail to consider the unique challenges faced by these businesses. Many programmes are tailored to larger corporations, neglecting the specific needs and capacities of smaller enterprises. Fitriani (2025) argues that a one-size-fits-all approach to fiscal support can alienate SMEs, as the criteria for eligibility may not align with their operational realities. Consequently, this misalignment can lead to a lack of participation, further exacerbating the challenges faced by SMEs in accessing fiscal support.

The disparities in awareness and accessibility of fiscal programmes across different regions in Indonesia present a significant challenge to equitable economic development. While urban areas may have better access to information and resources, rural regions often struggle with limited awareness of available fiscal support programmes. This geographical divide is concerning, as it exacerbates existing inequalities and hinders the potential for inclusive growth. According to Fitriani (2025), the lack of targeted outreach efforts in rural areas leads to a situation where many potential beneficiaries remain unaware of the opportunities that exist to support their economic activities.

Furthermore, the accessibility of fiscal programmes is often hampered by infrastructural deficiencies in rural regions. Limited access to technology and the internet can prevent small business owners from obtaining information about fiscal support. For instance, many rural entrepreneurs may not have the means to engage with online platforms where such information is disseminated. Hamilton-Hart and Schulze (2016) emphasise that without adequate infrastructure, the government's efforts to promote fiscal programmes can be rendered ineffective, particularly in less developed areas.

The effectiveness of fiscal policies is also contingent on the capacity of local governments to implement these programmes. In regions where local authorities lack the necessary skills or resources, the implementation of fiscal support can be inconsistent and ineffective. Pramusinto and Quah (2016) argue that the fragmentation of bureaucratic structures often leads to a lack of accountability and oversight, further exacerbating disparities in the accessibility of fiscal programmes. This situation creates a cycle of exclusion, where certain regions continue to lag behind due to inadequate support and resources.

Moreover, the cultural context in which businesses operate can also influence their awareness and accessibility to fiscal programmes. In many cases, traditional practices and local norms may discourage entrepreneurs from seeking external support. Doraisami (2013) points out that in some communities, there may be a prevailing belief that government assistance is not intended for them, leading to a reluctance to engage with fiscal programmes. This cultural barrier can significantly limit the reach of fiscal policies, particularly in rural areas where such beliefs may be more entrenched.

Comprehending Economic Results and Market Relationships

Fiscal policy in Indonesia has played a crucial role in shaping the landscape for small and medium-sized enterprises (SMEs). The government's interventions, particularly during economic downturns, have been aimed at fostering SME growth and enhancing their financial resilience. For instance, post-pandemic recovery strategies, as highlighted by Sugihartini and Hendrian (2025), included targeted fiscal measures that provided financial support and incentives specifically designed for SMEs, which are vital for the country's economic fabric. These interventions have been instrumental in stabilising SMEs, which constitute approximately 99% of all businesses in Indonesia, thereby contributing significantly to employment and economic output.

Moreover, the integration of SMEs into the formal sector has been a significant outcome of these fiscal interventions. By offering tax incentives and subsidies, the government has encouraged SMEs to formalise their operations, which in turn enhances their access to financing and markets. According to Ismal (2011), the formalisation of SMEs not only boosts their competitiveness but also increases tax revenues for the government, creating a virtuous cycle of growth and reinvestment. The fiscal measures have thus been effective in bridging the gap between informal and formal sectors, promoting a more robust economic environment.

Data from the Ministry of Cooperatives and SMEs indicates that the formalisation of SMEs has increased by 15% over the past three years, largely due to supportive fiscal policies. This shift not only enhances the financial resilience of these enterprises but also contributes to a more stable economic environment. Furthermore, the government's focus on enhancing financial literacy among SME owners has been pivotal in ensuring that these businesses can effectively utilise fiscal support to improve their operations and growth trajectories.

In addition, the role of fiscal policy in promoting regional economic resilience cannot be understated. Fiscal interventions have been tailored to address regional disparities, ensuring that SMEs in less developed areas receive the necessary support to thrive. This targeted approach has been essential in fostering balanced economic development across Indonesia, thereby reducing inequality and enhancing overall economic stability (Wirandana & Khoirunurrofik, 2024). By focusing on both growth and resilience, the fiscal policy framework has laid a solid foundation for sustainable economic development.

The long-term competitiveness of SMEs in Indonesia is significantly influenced by fiscal policies that are designed to create a conducive business environment. Tax incentives, for instance, have been a cornerstone of government strategy aimed at encouraging investment and innovation among SMEs. Judijanto (2024) highlights that the reduction of tax burdens for SMEs has enabled these enterprises to allocate more resources towards scaling their operations and enhancing productivity. This strategic fiscal approach has been essential in positioning Indonesian SMEs to compete not only domestically but also in the global market.

Moreover, the scalability of SMEs is closely linked to their ability to access finance, which is often facilitated by fiscal policies. Government initiatives aimed at improving access to credit for SMEs, such as guarantees for loans and subsidised interest rates, have been pivotal in empowering these businesses to expand. Ismal (2011) notes that such fiscal measures have led to a significant increase in loan disbursements to SMEs, thereby enabling them to invest in new technologies and expand their market reach. This financial support is crucial for enhancing the scalability of SMEs, allowing them to grow and adapt to changing market conditions.

Furthermore, fiscal policies that promote research and development (R&D) are vital for fostering innovation within the SME sector. By providing grants and tax deductions for R&D expenditures, the government encourages SMEs to innovate and improve their products and services. This focus on innovation is essential for maintaining competitiveness in an increasingly globalised economy. As highlighted by Sugihartini and Hendrian (2025), the integration of innovative practices within SMEs has led to improved productivity and efficiency, which are key drivers of long-term growth.

In addition, the alignment of fiscal policies with broader economic goals, such as sustainable development and digital transformation, is crucial for the long-term competitiveness of SMEs. The Indonesian government has recognised the importance of integrating sustainability into fiscal frameworks, promoting green technologies and practices among SMEs. This alignment not only enhances the competitiveness of SMEs but also contributes to broader national objectives of environmental sustainability and economic resilience.

Conclusion

supporting the small and medium-sized enterprises (SMEs) sector, which plays a pivotal role in national economic resilience and inclusive development. By examining the effectiveness of targeted tax policies, subsidies, and fiscal stimuli, it becomes evident that the Indonesian government recognises the strategic importance of SMEs in promoting job creation, local innovation, and regional equity. While these interventions have yielded positive outcomes—such as an increase in SME formalisation rates and enhanced access to credit—they also expose persistent institutional and operational limitations that hinder the full potential of such fiscal policies.

A key finding from this research highlights the uneven institutional readiness and fragmented policy coordination at the sub-national level. Although central authorities have made notable strides in formulating SME-centric fiscal frameworks, local governments often lack the capacity, resources, and technical know-how to implement these policies effectively. This disconnect creates inefficiencies and inconsistent support across regions, disproportionately affecting SMEs in rural and underdeveloped areas. Additionally, the research identified that bureaucratic complexity and unclear targeting mechanisms in fiscal programmes have led to delays, underutilisation, and confusion among SMEs—particularly those unfamiliar with formal administrative systems.

Another critical insight concerns the lack of widespread awareness and accessibility of fiscal support programmes among SME owners, especially in rural regions. Many entrepreneurs remain uninformed about the availability or requirements of these schemes, often due to inadequate outreach and infrastructural challenges. Even when support mechanisms are in place, cumbersome application processes and compliance burdens further deter participation. Moreover, the study noted a misalignment between some fiscal interventions and the specific needs of SMEs, revealing a one-size-fits-all approach that overlooks sectoral, regional, and gender-based disparities.

The policy implications of these findings are manifold. Firstly, there is an urgent need for improved coordination between central and regional governments, ensuring that fiscal support is both uniformly accessible and responsive to local socio-economic contexts. This could be achieved through stronger intergovernmental dialogue, decentralised budget planning, and inclusive policymaking that integrates stakeholder input from the SME community. Secondly, simplifying administrative procedures and ensuring the transparency of eligibility criteria will significantly enhance participation and trust in fiscal programmes. Furthermore, targeted education campaigns—especially in rural areas—are essential to raise awareness and improve financial literacy among SME operators.

Looking ahead, future directions for both policy and research must focus on refining fiscal decentralisation frameworks, enhancing data-driven policy design, and addressing sector-specific challenges. Special attention should be paid to how fiscal interventions impact female-led SMEs, informal entrepreneurs transitioning to formal status, and microenterprises in underserved regions. Additionally, further empirical studies are needed to measure the long-term impacts of fiscal strategies on SME sustainability and innovation.

Ultimately, the success of Indonesia's fiscal strategies hinges on their ability to bridge institutional, geographic, and informational divides. A more inclusive, context-sensitive, and responsive fiscal ecosystem is essential not only for supporting SMEs but also for fostering equitable and sustainable national development.

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