

# Legal Protection for MSMEs in the Digital Economy: E-commerce Regulatory Innovation Toward Business Sustainability

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## Abstract

*MSMEs are very important to the national economy, they face many structural and legal challenges during the digital transformation. Relevant regulations include Law No. 20 of 2008 on MSMEs, the ITE Law, and Government Regulation No. 80 of 2019. This normative legal research uses a juridical-normative approach based on secondary legal materials and literature studies. It explores three main questions: the current legal protections for MSMEs in Indonesia's digital economy, the legal challenges MSMEs face in using e-commerce platforms, and how regulatory innovations can support sustainable business continuity. The findings reveal that existing laws are ineffective due to a lack of digital legal literacy among MSMEs, insufficient personal data protection, and overlapping regulations. Additionally, unequal bargaining positions between MSMEs and large digital platforms exacerbate legal problems. The study highlights the need for adaptive, inclusive, and risk-based regulations to ensure fairness. The government should play a dual role: not only as a regulator but also as a facilitator of digital transformation through legal education, regulatory simplification, and improved access to legal protection and aid. To enhance competitiveness and protection in the digital era, the research recommends improving MSMEs' understanding of digital law, strengthening legal business status, and establishing accessible online dispute resolution mechanisms.*

**Keywords:** MSMEs, legal protection, e-commerce, digital regulation, economic transformation

## 1. INTRODUCTION

Legal protection is an essential function of the legal system aimed at providing a sense of security, justice, and certainty for every legal subject. This protection can take the form of preventive or repressive measures. Preventive protection provides space for the community to raise objections or opinions before a government decision is finalized, while repressive protection aims to resolve disputes through judicial processes. Both forms of protection reflect the principles of a rule of law state that upholds respect for human rights and places the government within legal boundaries (Sari et al., 2020).

In the context of the national economy, legal protection also plays an important role, especially for the Micro, Small, and Medium Enterprises (MSMEs) sector. This is in accordance with the mandate of Article 33 paragraph (1) of the 1945 Constitution of the Republic of Indonesia, which emphasizes that the economy is organized as a joint effort based on the principle of kinship,

with the main goal of improving the welfare of all Indonesian people. MSMEs are a strategic sector that has proven capable of absorbing a large workforce, significantly contributing to the Gross Domestic Product (GDP), and demonstrating extraordinary resilience in facing economic crises (Nugroho & Arafah, 2020).

As information and communication technology advances, MSMEs are now entering the digital economy era, characterized by the massive use of e-commerce platforms in business activities. The digital economy enables cross-regional transactions to occur quickly, efficiently, and based on technology. However, behind these opportunities, there are significant challenges that SMEs must face, such as uneven competition with large businesses, limited access to technology and information, and a lack of digital literacy and understanding of legal protection in the digital space.

In order to anticipate these challenges and create a healthy and inclusive digital trade ecosystem, the government has issued various regulations, including Law No. 20 of 2008 on MSMEs, Law No. 11 of 2008 on Electronic Information and Transactions (ITE), and Government Regulation No. 80 of 2019 on Trade Through Electronic Systems. Recently, the Minister of Trade Regulation (Permendag) No. 31 of 2023 was issued, which specifically includes provisions regarding licensing, advertising, coaching, and supervision of business actors in electronic system trade (PMSE), including providing special protection for domestic SMEs against competitive pressure from foreign traders.

However, the effectiveness of this regulation in providing comprehensive legal protection for MSMEs still needs further examination. Many MSMEs do not yet understand the substance of the regulations, do not have access to digital legal protection, and face structural challenges in adapting to digital transformation. Based on the aforementioned description, the problem that becomes the focus of this writing can be formulated as follows:

1. What forms of legal protection are currently applied to Micro, Small, and Medium Enterprises (MSMEs) within Indonesia's digital economy ecosystem?
2. What legal challenges are faced by MSMEs in utilizing e-commerce platforms to support their business sustainability?
3. How can e-commerce regulatory innovations be designed to promote sustainable and equitable business continuity for MSMEs?

## 2. METHOD

This study is a normative legal research that employs a **juridical-normative approach**, relying primarily on secondary legal materials supported by relevant literature studies. The research focuses on the analysis of statutory regulations governing legal protection for MSMEs in the context of the digital economy, including regulations on e-commerce, consumer protection, and personal data protection (Arliman S, 2017).

The research method is **descriptive-analytical**, aiming to systematically describe the legal issues encountered by MSMEs and to analyze the extent to which existing policies and legal instruments ensure business sustainability in the digital era. The objective of this approach is to provide normative recommendations for the design of regulatory innovations that are not only adaptive to technological developments but also fair and inclusive for MSME actors in Indonesia.

### 3. RESULT AND DISCUSSION

#### 1.1. Legal Protection for MSMEs in the Digital Era in Indonesia

UMKM (Micro, Small, and Medium Enterprises) in Indonesia receive strong legal protection within the digital ecosystem, particularly in the e-commerce sector. The existing regulations aim to support the growth, sustainability, and competitiveness of MSMEs in the realm of electronic commerce. The legal provisions that serve as the basis for that protection include (Ramli et al., 2021):

a. Law Number 20 of 2008 concerning MSMEs

This law regulates the rights and obligations of MSME actors and provides guidance on access to financing, technological support, legal protection, and business development strategies. In the digital context, MSMEs are guaranteed the right to obtain assistance and market access through technology (Apriani & Said, 2022).

b. Law Number 11 of 2008 on Information and Electronic Transactions (ITE)

The ITE Law guarantees security and legal certainty in digital transactions, including for MSMEs that conduct business activities through online platforms. Protection includes the security of personal data and sanctions for fraudulent actions in the digital space (Arbani, 2025).

c. Government Regulation Number 80 of 2019 Concerning Trade through Electronic Systems

This regulation governs the management of e-commerce, the rights and obligations of business actors, as well as consumer protection. Specifically for MSMEs, this regulation emphasizes the importance of competitive fairness and special treatment so that MSMEs are not sidelined by large companies in the digital ecosystem (Arbani, 2025).

In addition to protection as business actors, MSMEs are also bound by consumer protection regulations, as they interact directly with the public as sellers. The regulations governing this aspect are:

(1) Law Number 8 of 1999 on Consumer Protection

This law guarantees consumers the right to obtain products that are safe, of high quality, and in accordance with the information provided. SMEs are required to provide honest and transparent information to consumers and ensure the quality of products sold online.

(2) Minister of Trade Regulation Number 50 of 2020 as the implementation of Government Regulation No. 80 of 2019

This regulation further stipulates the obligations of business actors in e-commerce, such as clarity of information, price transparency, and consumer rights regarding the return of goods within a certain period. This regulation also applies to MSMEs selling on digital platforms.

(3) Financial Services Authority (OJK) regulations regarding Fintech and P2P Lending

Many MSMEs utilize digital financial services to obtain business capital. OJK regulates that the financing process through fintech and P2P lending is conducted safely and transparently, while also providing legal protection for MSMEs as borrowers.

#### Institutions Involved in the Protection of MSMEs:

- a. Ministry of Cooperatives and SMEs  
Tasked with fostering and empowering MSMEs, including supporting digital transformation and technology mastery to enhance competitiveness in the online market.
- b. Financial Services Authority (OJK)  
Supervising the implementation of digital financing activities by MSMEs through fintech, and ensuring that the financing ecosystem is safe and fair.
- c. Indonesian Consumer Protection Commission (KPKI)  
Ensuring that consumer rights remain protected, including in transactions conducted with MSME actors. KPKI is authorized to take action against business actors who harm consumers.
- d. Indonesian E-Commerce Association (idEA)  
As a platform for e-commerce actors, idEA provides education and socialization to MSMEs regarding policies and regulations applicable in the e-commerce sector. Legal protection for MSMEs in the digital sector relies on the existence of a comprehensive regulatory framework, starting from the MSME Law, the ITE Law, to consumer protection regulations. This becomes an important foundation so that MSMEs can grow fairly and competitively amidst the development of the digital economy (Rosmayati, 2023). In addition to regulations, the active role of various state institutions and industry associations also strengthens the position of MSMEs in facing challenges in the digital era.

MSMEs are very important to protect because they make a significant contribution to the Indonesian economy. Based on data from the Ministry of Cooperatives and SMEs, the contribution of SMEs to Gross Domestic Product (GDP) reached 56.18% in 2010, increased to 61.41% in 2015, and stabilized at 61% in 2018. SMEs also became the largest absorbers of the workforce, covering around 97% of the total national workforce during the 2010–2018 period, with a dominance of micro-enterprises. SMEs have proven resilient in facing crises, such as the monetary crisis of 1997–1998, when many large companies went bankrupt, yet SMEs not only survived but even thrived. Therefore, protection and support for MSMEs are crucial for maintaining the sustainability of the national economy. Therefore, protection and support for MSMEs are crucial for maintaining the sustainability of the national economy.

#### 1.2. Legal issues faced by MSMEs in the utilization of e-commerce

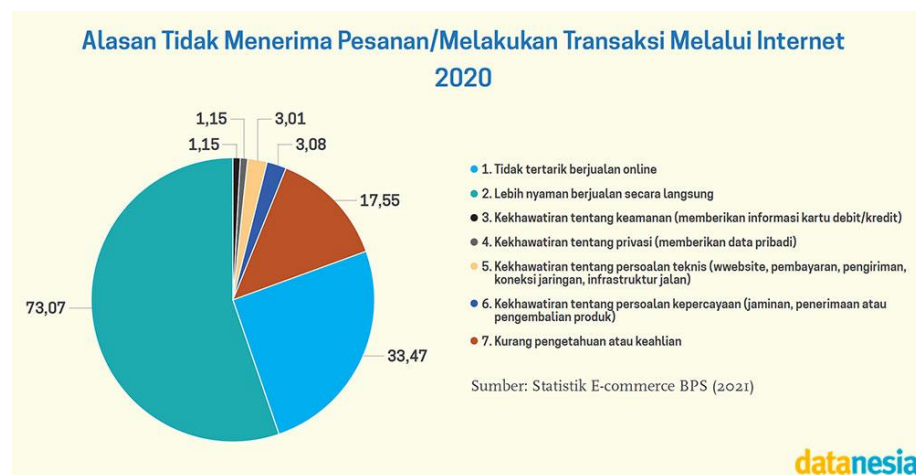
Data and transaction security on e-commerce platforms is an issue often faced by SMEs. Many small businesses do not have strong IT infrastructure, which makes them more vulnerable to cyber attacks. Customer data security is very important, especially personal and payment information. Fraud and data theft can damage a company's reputation, cost money, and make customers lose trust. Therefore, SMEs must invest in adequate security systems and continuously keep up with technological developments to protect their data (Arbani, 2025).

Large businesses, with more capital and resources, have an advantage in terms of visibility and advertising. SMEs face very tight competition in the world of e-commerce. SMEs often struggle to compete in terms of price, promotion, and delivery speed, which puts them under pressure. Therefore, SMEs must focus on strategies that will differentiate them from large competitors, such as leveraging the strength of unique products, providing specialized customer service, and enhancing their brand image.

Many SMEs have not yet fully understood the importance of intellectual property rights (IPR) in the digital world. In the era of e-commerce, business actors need to protect their brands, product designs, and innovations to prevent theft or imitation. Without IP protection, the products they sell can be easily copied by competitors. Therefore, MSMEs must be more aware of the importance of registering their brands and protecting intellectual property rights to avoid harming their businesses in the future.

Tax regulations in the e-commerce world can be a significant obstacle for MSMEs, especially for those building online businesses. Some countries have introduced tax regulations that require online companies to report and pay for transactions conducted. In the case of MSMEs, tax regulations often change, and understanding and complying with these tax obligations can be complicated. SMEs must have a strong understanding of the applicable tax regulations to avoid sanctions and fines.

E-commerce is regulated by various regulations and is often changed at the local, national, and international levels. In the case of SMEs, these regulatory changes can be very confusing and time-consuming (Juliana & Radian, 2024). Regulatory changes have the potential to increase administrative burdens, especially regarding taxes, protection, and shipping requirements. SMEs must have a trained team or use consulting services to ensure that the company consistently complies with the applicable regulations. Below is an image diagram (Figure 1) showing the percentage of reasons why consumers do not conduct transactions via the internet, and Table 1 presents the legal challenges faced by MSMEs in the digital economy.



**Figure 1.** Reasons for not conducting transactions via the internet  
(<https://datanesia.id/hambatan-umkm-masuk-ke-dunia-digital/>)

Table 1. Legal Challenges Faced by MSMEs in the Digital Economy

No.	Type of Legal Challenge	Brief Explanation
1	Lack of Understanding of Digital Law	Many MSMEs do not understand electronic transactions law, consumer protection, and the ITE Law.
2	Overlapping and Unclear Regulations	Many e-commerce regulations are not harmonized and do not specifically address MSME protection.
3	Weak Personal Data Protection	MSMEs are not prepared to protect consumer data and lack understanding of obligations under the Personal Data Protection Law.
4	Incomplete Business Legality	Many MSMEs are not legally registered and lack licenses (NIB, SIUP), making legal protection difficult

### 1.3. E-Commerce Regulatory Innovations Can Be Designed to Encourage the Sustainability of MSME Businesses

According to a report by Bank Indonesia (BI), MSMEs play an important and strategic role in the Indonesian economy because they contribute significantly to the Gross Domestic Product (GDP) by 61.1%, absorb 97.1% of the workforce, and account for 14.4% of exports. Most MSMEs do not require highly educated labor, making it easy to employ people from their surroundings to improve living standards and reduce poverty (Febriantoro, 2018).

Payne said that MSMEs will become more productive and competitive. One way to enhance competitiveness is by adopting ICT (information, communication, and technology), which includes e-commerce (Nugrah Leksono Putri Handayani, 2022) see (Hallikainen et al., 2020) see (Faudziah et al., 2020). This is necessary to keep up with the increasing number of foreign investors entering the e-commerce industry, as well as to compete with other ASEAN SMEs. As a party involved in the adoption of e-commerce, especially for small and medium enterprises (SMEs), Based on Republika (2023) the Indonesian government must understand the actual situation on the ground. The results of the Finixorgle Indonesia survey indicate that around 75 thousand out of 55.2 million SMEs in Indonesia have used the internet to market their products, or 0.0013% of the total (Febriantoro, 2018).

Protection of MSMEs in digital marketing through the provision of information technology facilities and infrastructure so that MSMEs do not have to spend huge initial capital in developing distribution channels so that their profitability increases along with the expansion of their market. In addition, the government needs to encourage the optimization of technology utilization by increasing the capacity of MSMEs to adopt information technology (Harmawan, 2022).

To ensure that the e-commerce industry creates a sustainable ecosystem for all stakeholders, including consumers and SMEs, flexible and growth-supportive regulations are very important. To ensure that the e-commerce industry remains a pillar of digital economic growth, regulators must create policies that support innovation, investment, and operational efficiency in addition to providing legal certainty. Policies that are too rigid and regulate operations at a micro level have the potential to limit the industry's flexibility to adapt to rapid market changes. On the contrary, policies based on adaptability and efficiency will create more flexible policies (Redaksi, 2025).

To encourage the growth of e-commerce in Indonesia, the government must play its role not only as a regulator but also as an accelerator. Regulators are strategically responsible for ensuring that industry growth is balanced with consumer protection and healthy business competition. Regulations that support innovation will accelerate the growth of the e-commerce industry while ensuring transparency and healthy business competition. This will also provide more opportunities for SMEs and local entrepreneurs to thrive in the digital era (Redaksi, 2025).

## CONCLUSION

Based on the description and analysis that have been conducted, the following conclusions can be drawn:

1. The role of the government as a regulator is crucial in supporting the sustainability of MSMEs in the digital era. The government needs to create regulations that provide both protection and opportunities for SMEs to thrive in an increasingly competitive digital ecosystem. Some of the regulations that have been issued include Law No. 20 of 2008 on MSMEs, which serves as the legal basis for strengthening the small and medium business sector. In addition, there is Law No. 11 of 2008 on Information and Electronic Transactions (ITE), which guarantees the security of digital transactions and imposes sanctions on fraudulent actions in the digital space. The government also issued Government Regulation No. 80 of 2019 concerning Trade through Electronic Systems, which regulates e-commerce governance, establishes the rights and obligations of business actors, and provides consumer protection. These three regulations serve as concrete evidence that the government recognizes the importance of SMEs in national economic development and strives to create a fair and safe business climate in the digital era.
2. The regulations that have been created by the government not only serve as a legal basis but also emphasize the importance of special protection for MSMEs so that they can compete fairly in the digital ecosystem. In the regulation, it is explained that there needs to be competitive fairness that allows SMEs to grow and develop without being sidelined by the dominance of large companies. The government provides special treatment for MSMEs, both in the form of ease of access, incentives, and legal protection, in order to create healthy and balanced competition amidst the rapidly accelerating digital economic transformation.
3. As a regulator, the government must function as an accelerator in driving the growth of MSMEs in the digital era. This role includes efforts to balance the need for security in digital transactions with the ease for business actors to continue innovating. The government also needs to create an ecosystem that supports operational efficiency and ease of access to investment, so that MSMEs can develop optimally. In addition, it is important for the government to ensure the creation of healthy business competition, so that MSMEs have a fair space to compete and are not marginalized by larger business actors.

4. In an effort to support the sustainability of MSMEs in the digital era, there are several challenges that need to be addressed. Although the government has ensured the security of data and digital transactions through various regulations, the reality is that digital systems remain vulnerable to hacking attempts and cybercrime. Moreover, the potential overlap between regulations can confuse business operators, especially SMEs that have limitations in deeply understanding legal aspects. Another equally important challenge is the lack of protection for Intellectual Property Rights (IPR), where the brands, designs, and product innovations of MSMEs are very easy to copy if they do not have adequate legal protection. On the other hand, the low public awareness of registering businesses legally also poses an obstacle, because without legal status, MSMEs will struggle to obtain protection and legal assistance when facing problems.

### **Suggestion**

Based on Based on the above conclusion, a number of policy recommendations are needed, including:

- Continuous improvement of digital legal literacy by organizing regular training and workshops that discuss the rights of MSMEs in electronic transactions, particularly those related to the Electronic Information and Transactions Law (ITE Law) and the Consumer Protection Law. In addition, these efforts can be strengthened through collaboration with various parties, such as universities and e-commerce associations.
- Harmonization and simplification of regulations for MSMEs in the digital realm.
- Facilitation of data protection and cybersecurity for MSMEs in the digital era.
- Development of dispute resolution mechanisms.
- Strengthening Access to Legal Aid.
- Easy, affordable, and effective business licensing and legality.
- Implementation of adaptive and risk-based regulations.
- Empowering the Digital MSME Community.

Thus, the success of legal protection for MSME actors in the digital era depends on the harmonization between the awareness of the parties, positive law, and Legal Technology infrastructure. These steps are necessary for Indonesian law to be able to address global challenges in the digital economy.

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