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Modernization of Accounting Practices for MSMEs in Developing Countries: Systematic Literature Review

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Abstract: Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the economies of developing countries, yet they continue to face significant challenges in modernizing accounting practices. This study aims to identify trends, challenges, and strategies in promoting the modernization of MSME accounting through a Systematic Literature Review (SLR) approach. The literature analyzed comprises 30 selected articles out of 346 publications published between 2018 and 2025, sourced from leading academic databases such as Emerald Insight, DOAJ, and ResearchGate, and indexed in reputable databases including Scopus, Copernicus, Sinta, or published in international scientific conference proceedings. The review findings indicate that institutional pressures, such as government regulations and market expectations, greatly influence the adoption of modern accounting practices, alongside internal factors such as financial literacy and business leadership. Accounting technologies, including Accounting Information Systems (AIS), e-payment, and fintech, have proven to enhance financial reporting efficiency, yet are hindered by low digital literacy and infrastructural limitations. This study emphasizes that MSME accounting modernization requires a contextual approach that considers social, cultural, technological, and institutional aspects unique to each country. These findings may serve as a basis for formulating policies to support increased transparency, accountability, and sustainability of MSMEs in developing countries.

Keywords: Accounting Modernization, MSMEs, Developing Countries, Accounting Information System, IFRS for SMEs, Digital Literacy, Systematic Literature Review.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a highly strategic role in supporting economic growth, job creation, and poverty alleviation in developing countries such as Indonesia, India, Ethiopia, and Uganda (Endris & Kassegn, 2022; Nursini, 2020). MSMEs also serve as key actors in driving the informal sector and strengthening local economic resilience. However, various structural challenges—such as limited access to finance,

inadequate infrastructure, and unsupportive policies—continue to significantly impede the growth and sustainability of this sector (Wube & Atwal, 2024; Kilay et al., 2022).

One of the fundamental challenges faced by MSMEs is the modernization of accounting practices, including the adoption of appropriate Financial Accounting Standards, utilization of Accounting Information Systems (AIS), and implementation of Management Accounting Practices (MAPs). In Indonesia, although the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) have been introduced, many MSME actors still encounter difficulties in implementation due to low accounting literacy and limited human resource capacity (Yolanda et al., 2024; Yuniar et al., 2025). Similar challenges are also observed in South Africa, where the adoption of IFRS for SMEs faces cultural and political barriers (Segotso et al., 2024), as well as in countries such as Ghana and India, which struggle with infrastructural and institutional capacity constraints (Nketsiah & van der Westhuizen, 2024; Meher et al., 2021).

The implementation of information technology and digital transformation also opens up new opportunities for the modernization of MSME accounting practices. The use of e-payments, digital banking, fintech, and even artificial intelligence (AI) has the potential to increase the efficiency and transparency of financial reporting, as well as to support data-driven decision making (Lestari et al., 2025; Husnayetti et al., 2024; Akoh, 2024). Nonetheless, low levels of digital literacy, lack of trust in digital systems, and minimal digital infrastructure remain major challenges in this transformation process (Nazaruddin et al., 2024).

Social and institutional factors also influence the success of MSME accounting modernization. Research by Shaikh & Mandviwala (2023) and Dedyansyah et al. (2024) indicates that the implementation of international standards such as IFRS for SMEs in Muslim-majority countries requires adjustments to Sharia principles. Furthermore, gender- and demography-based approaches are also crucial, as shown by Raspati & Kadiyono (2023), who found that empowering women MSME actors contributes to business independence, particularly in the micro segment.

The resilience and sustainability of MSMEs are also shaped by managerial capabilities, transformational leadership, and effective accounting strategies. Studies by Saragih et al. (2024) and Romero Alvarez et al. (2024) reveal that limited accounting capacity and lack of access to innovative financing hinder MSME innovation and growth. On the other hand, good and transparent financial management practices can enhance investor confidence, market access, and business resilience in the face of crises, disasters, and market fluctuations (Gunathilaka, 2018; Hendri & Sari, 2023).

Regulatory aspects and tax compliance are also important elements in the discourse of MSME accounting modernization. Limited tax knowledge and the lack of fiscal incentives hinder voluntary compliance among MSME actors, ultimately affecting the legality and sustainability of their businesses (Albab & Suwardi, 2021). Moreover, harmonization of financial and accounting standards remains a global challenge, particularly for developing countries facing political pressures and limited regulatory institutional capacity (Munfariha, 2024).

Based on these various findings, the modernization of MSME accounting practices cannot be accomplished partially or instantly. A systematic approach is required, taking into account the local, political, social, and technological contexts in each country. Therefore, a systematic literature review (SLR) is necessary to identify trends, challenges, and strategies that can strengthen MSME accounting capacity in developing countries, in order to support transparency, accountability, and inclusive, sustainable economic development.

METHODS

This study employs a Systematic Literature Review (SLR) approach, which is a structured and systematic method for evaluating relevant scholarly literature on the modernization of accounting practices in Micro, Small, and Medium Enterprises (MSMEs) in developing countries. To obtain a comprehensive and holistic understanding, this review encompasses both national and international research findings. The literature was collected from leading academic databases, including Emerald Insight, DOAJ, and ResearchGate. Articles considered in this review were those available in either Indonesian or English, accessible in full-text, and indexed in reputable databases such as Scopus, Copernicus, Sinta, or published in international scientific conference proceedings.

To ensure that the review remains aligned with the latest scientific developments, the analyzed literature was limited to publications from 2018 to 2025. The literature search utilized the main keyword "modernization of MSME accounting" to explore topics related to the development of MSME accounting systems, the adoption of digital technology in financial reporting, as well as the role of policies and regulations in supporting accounting transformation in the small business sector. The initial search yielded 346 relevant articles. However, after a selection process based on topic relevance, data completeness, and publication quality, 30 articles were selected for further analysis in this study.

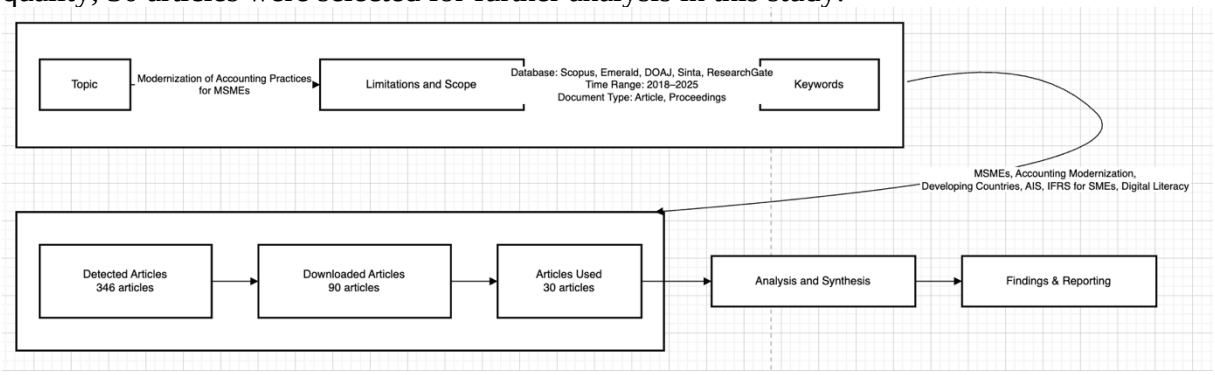


Figure 1. Research Diagram

RESULTS AND DISCUSSION

Research Findings

Journal Indexing

To ensure the quality and relevance of the data in this study, the selection of literature articles was based on journal indexing recognized both nationally and internationally. Journal indexation is an indicator of the credibility and scientific standards of a publication, reflecting the quality of the peer review process as well as the academic contribution provided.

Out of a total of 30 articles selected for this review, the majority originated from journals indexed in highly reputable databases. Six articles were published in Scopus Quartile 1 (Q1) journals, which are known for their high selectivity and significant citation impact. Additionally, there were 2 articles from Scopus Q3 and 1 article from Scopus Q4, both of which still demonstrate adequate scientific quality on an international scale.

From the national context, there was a significant contribution from journals indexed in SINTA. The details include 4 articles from SINTA 2, and 2 articles each from SINTA 3, SINTA 4, and SINTA 5. The presence of articles from SINTA-indexed journals illustrates the active development of MSME accounting research in Indonesia, with varying levels of publication quality.

Furthermore, 7 articles originated from journals indexed in Copernicus, and 2 other articles from journals listed in the Directory of Open Access Journals (DOAJ). Both indices indicate open accessibility and the ease of knowledge dissemination among global researchers.

This distribution of journal indexation confirms that the literature used in this study comes from reliable sources, reflecting a balance between local and global perspectives in understanding the modernization of MSME accounting practices in developing countries.

Table 1. Index of Journal Articles Used

No	Indeks	Jumlah Artikel
1	Scopus Q1	6
2	Scopus Q3	2
3	Scopus Q4	1
4	Sinta 2	4
5	Sinta 3	2
6	Sinta 4	2
7	Sinta 5	2
8	Copernicus	7
9	DOAJ	2

The combination of these various sources demonstrates that this study adopts a balanced approach between global and local perspectives. The diversity of journal indexes used not only strengthens the theoretical and methodological foundations, but also broadens the analytical scope of the issues under review. Thus, it is expected that the results of this research will not only be academically relevant, but will also make a tangible contribution to the development of public policy, professional practice, and future research directions.

Research Countries

This study explores the modernization of MSME accounting practices using a Systematic Literature Review (SLR) approach that covers various geographical regions in developing countries. The distribution of countries of origin for the reviewed studies provides insight into the scientific focus on MSME accounting in different economic and social contexts.

Of the 30 articles analyzed, Indonesia occupies the dominant position with 11 publications. This highlights the strong interest of domestic scholars in issues of transformation and digitalization of accounting practices in the MSME sector, which forms the backbone of the national economy.

South Africa ranks second with 4 articles, indicating a relatively active initiative for accounting modernization in the Sub-Saharan Africa region. India follows with 2 articles reflecting the development of accounting technology and inclusive financial policies in the country.

Other countries that contribute to the analyzed literature include Uganda, Ethiopia, Ghana, Latin America (unspecified country), the United Kingdom, Egypt and Saudi Arabia (in a comparative study), as well as Sri Lanka, each with one article. Although their numbers are smaller, the presence of studies from these countries enriches the global perspective on the adaptation of MSME accounting practices across diverse cultural, economic, and institutional contexts.

Table 2. Distribution of Research Countries

No	Country	Number of Articles
1	Uganda	1
2	Ethiopia	1
3	Indonesia	11
4	ghana	1
5	Amerika Latin	1
6	Inggris	1
7	India	2

8	Afrika Selatan	4
9	Mesir dan Arab Saudi	1
10	Sri lanka	1

Theoretical Frameworks in the Reviewed Studies

In conducting studies on the modernization of accounting practices for MSMEs in developing countries, previous research has utilized various theoretical frameworks as conceptual foundations for literature reviews, formulating research objectives, developing hypotheses, and interpreting findings. Several theories have been adopted to explain the dynamics of tax planning and the financial performance of MSMEs, as presented in Table 3. The classification results indicate that agency theory is the most frequently used theoretical framework by researchers to examine the relationship between tax planning strategies and the financial performance of small and medium-sized business entities.metodologi yang digunakan dalam artikel-artikel yang dianalisis dalam penelitian ini.

Figure 3. Classification Theories

No	Theory Used	Brief Explanation	Author(s)
1	Institutional Theory	Adoption of IFRS for SMEs is influenced by normative, mimetic, and coercive pressures.	Segotso et al., 2024
2	Management Accounting Practices Adoption Theory	Internal and external factors encourage the adoption of management accounting practices.	Dlamini, 2024
3	Accounting Information Systems & Financial Technology	Technology integration for MSME reporting efficiency and transparency.	Mediaty et al., 2025
4	Economic Development Theory	The role of MSMEs in economic growth and job creation.	Shaikh & Mandviwala, 2023
5	Information Asymmetry & IFRS Harmonization	IFRS adoption increases transparency but presents challenges from the sharia perspective.	Dedyansyah et al., 2024
6	Semiotic Accounting Theory	Language and symbols are crucial for MSMEs to understand accounting reports.	Yolanda et al., 2024
7	Political Approach in Standard Setting	Islamic finance regulation is influenced by political dynamics.	Munfariha, 2024
8	Financial Literacy & Technology Adoption	The success of fintech depends on users' digital literacy.	Husnayetti et al., 2024
9	Innovation Diffusion Theory	Factors influencing the adoption of technological innovation in MSMEs.	Akoh, 2024; Nazaruddin et al., 2024
10	Resilience Theory & Transformational Leadership	Innovative leadership helps MSMEs face crises.	Nketsiah & van der Westhuizen, 2024
11	Basic Accounting Theory & SAK EMKM	Simplification of financial reporting for MSMEs.	Lestari et al., 2025
12	Community Empowerment	Community participation drives MSME empowerment.	Saragih et al., 2024
13	Signal Theory	Certification acts as a quality signal for investors.	Svetek, 2022
14	Fraud Prevention Theory	Ethics and internal controls prevent fraud in MSMEs.	

Discussion

Institutional Pressures Affecting the Adoption of Modern Accounting Practices by MSMEs in Developing Countries

Institutional pressures play a significant role in either driving or hindering the adoption of modern accounting practices by MSMEs in developing countries. These pressures may originate from government regulations, market expectations, social norms, and interventions by financial institutions. For example, in South Africa, the adoption of IFRS for SMEs faces

challenges that are not only technical but also political and cultural in nature. Segotso et al. (2024) noted that low accounting literacy, the dominance of local norms, and a lack of policy support are the main obstacles in the institutionalization process of these practices. Similar issues arise in Muslim-majority countries, where the harmonization of international standards with Sharia principles presents additional challenges, highlighting the importance of sensitivity to local cultural contexts and values in the modernization process (Dedyansyah et al., 2024).

Strong institutional pressures, such as transparent tax reporting requirements or financial incentives for MSMEs that implement specific accounting practices, can accelerate the adoption of better accounting standards. However, these pressures must be accompanied by technical assistance and capacity building for MSME actors to prevent resistance.

Key Internal and External Factors Driving or Hindering the Adoption of Management Accounting Practices (MAPs) by MSMEs

Internal factors influencing the adoption of management accounting practices (MAPs) include financial literacy, human resource capacity, entrepreneurial orientation, and business leadership. The study by Yuniar et al. (2025) emphasizes the importance of accounting comprehension in preparing reports based on SAK EMKM, while Lestari et al. (2025) shows that basic accounting understanding remains a major challenge among Indonesian MSME actors. Furthermore, transformational leadership has proven effective in enhancing MSME resilience to crises, as demonstrated by Nketsiah & van der Westhuizen (2024) in Ghana.

Meanwhile, external factors include the availability of technological infrastructure, access to financing, regulatory support, and collaboration with stakeholders. Dlamini (2024) notes that a lack of government support and weak infrastructure are the main obstacles to the adoption of MAPs in many developing countries. In Indonesia, limited integration of accounting information systems also contributes to the slow pace of this transformation (Mediaty et al., 2025). Additionally, external challenges such as natural disasters (Gunathilaka, 2018) and corruption practices (Lakuma et al., 2019) further complicate MSME sustainability. Therefore, strengthening internal capacities of MSME actors and reforming external support systems simultaneously become key to effectively and sustainably encouraging the adoption of management accounting practices.

The Role of Accounting and Financial Technology in Enhancing Transparency and Efficiency of MSME Reporting

Accounting and financial technology play a vital role in improving the efficiency and transparency of MSME financial reporting. Accounting Information Systems (AIS), e-payments, digital banking, and fintech are examples of digital instruments that have demonstrated positive impacts on MSME financial management. Research by Mediaty et al. (2025) shows that the implementation of AIS can enhance reporting efficiency and the integrity of financial information, although access to technology and digital skills remain significant barriers.

The study by Husnayetti et al. (2024) highlights that financial technology has great potential in increasing MSME financial inclusion, but its effectiveness largely depends on the level of digital literacy and users' trust in digital systems. This is also supported by Meher et al. (2021), who found that the use of digital banking in India contributes to the financial efficiency of MSMEs.

However, technology adoption remains uneven. Issues such as the lack of a clear framework (Akoh, 2024) and challenges related to digital ethics (Nazaruddin et al., 2024) indicate the need for adaptive regulation and comprehensive education. Amid disparities in infrastructure and digital competencies, digital transformation remains a strategic opportunity

to improve the competitiveness and accountability of the MSME sector in developing countries.

CONCLUSION

The adoption of modern accounting practices by MSMEs in developing countries cannot be separated from the influence of institutional pressures, both formal (such as regulations) and informal (such as social and cultural norms). These pressures can serve as catalysts or, conversely, as barriers, depending on the internal readiness of MSME actors and the availability of external support. Amid challenges such as low accounting literacy, limited infrastructure, and diverse cultural values, the success of adopting management accounting practices and financial technology is highly determined by the synergy between public policy, institutional support, and the enhancement of individual capacities among MSME actors. Therefore, a contextual, inclusive, and empowerment-oriented approach is a crucial prerequisite for fostering effective and sustainable accounting transformation in the MSME sector.

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