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ARTICLE

Transforming the Finance of Small and Medium Micro Enterprises

Unlocking Growth Through Innovation in Central Lombok District

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Abstract: This study discusses the challenges faced by MSMEs. This study focuses on the importance of innovation as a transformer for micro, small, and medium enterprises, especially in the financial sector of Central Lombok Regency. The increasingly difficult challenges faced by Micro, Small, and Medium Enterprises are in Central Lombok Regency. This study uses a qualitative-exploratory approach. The study locus is Central Lombok Regency. Primary data collection was carried out using 3 (three) techniques. In-depth interviews were conducted with Micro, Small, and Medium Enterprises, the financial sector, and other stakeholders involved in Micro, Small, and Medium Enterprises activities and ecosystems. Next, observations were carried out on activities to better understand the daily operations and challenges faced by Micro, Small, and Medium Enterprises. In an effort to confirm the data and information obtained, a focus group discussion (FGD) was then carried out as part of the triangulation technique in qualitative methods. This study finds that fostering interaction among Micro, Small, and Medium Enterprises is key to their growth and sustainability. Whether through traditional partnerships or digital platforms, Micro, Small, and Medium Enterprises can benefit from coming together to increase their competitiveness and contribute to overall economic development. Apart from that, the financial transformation of Micro, Small, and Medium Enterprises through innovation opens up growth opportunities and increases competitiveness in the digital era. The government and various related parties must continue to work together to support the financial transformation of Micro, Small, and Medium Enterprises. This can be achieved by providing adequate digital infrastructure, fintech education and training programs, and regulations that support the growth of Micro, Small, and Medium Enterprises. In addition, this study recommends that the government, private sector, Micro, Small, and Medium Enterprises, and other stakeholders work together to overcome challenges and realize financial improvements for Micro, Small, and Medium Enterprises through sustainable innovation in Central Lombok Regency.

Keywords: Transformation; MSMEs; Innovation; MSME Finance; Digitalization; Role of Actors.

1. Introduction

Indonesia is one of the countries in ASEAN that is worth considering from an economic perspective. However, this per capita figure is lower than neighboring countries. This is recorded in the October 2023 edition of the World Economic Outlook database on the IMF website. The IMF measures a country's economy based on the expected gross domestic product (GDP) value. Indonesia's Gross Domestic Product is estimated to reach \$1.4 trillion in 2023. This figure represents 36.7% of the total ASEAN Gross Domestic Product or 1.4% of the total global Gross Domestic Product. GDP estimates that Indonesia is first in the ASEAN region and 16th globally. However, Indonesia's Gross Domestic Product per capita in 2023 will only be PLN 5,100 dollars, about 17 times smaller than Singapore. Indonesia's economy ranks fifth in the ASEAN region per capita, behind Brunei Darussalam, Malaysia, and Thailand. As seen in [Figure 1](#).

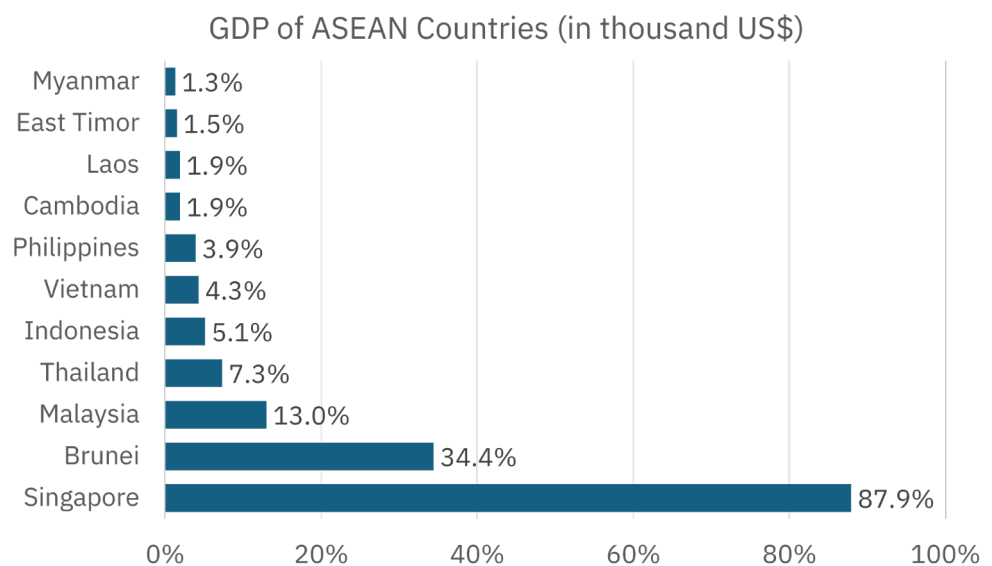


Figure 1. Gross Domestic Product of ASEAN Countries

Source: World Economic Outlook October 2023 edition on the IMF website

Data from the Ministry of Cooperatives and MSMEs shows that the Indonesian MSME field continues to grow. Indonesia's canvas was decorated with 65.47 million MSMEs in 2019. This number will increase to 8.71 million units in 2022. According to projections by the Ministry of Cooperatives and SMEs, in 2022, there will be 20.76 million MSMEs joining the economic structure, a tremendous increase of 26.6% from 16.4 million MSMEs in the previous year. A series of initiatives undertaken by the Central Government demonstrates its commitment to developing MSMEs, with assistance and financing channels such as the National Economic Recovery (PEN) program and People's Business Credit (KUR), in addition to firm encouragement from the *Bangga Buatan Indonesia* (Proud of Indonesian Products National Movement) ([Aprilani, Samodra, et al., 2023](#)). Micro, small, and medium enterprises are very important for the country's economic development. SMEs contribute to economic growth and employment and increase gross domestic income ([Sanjani, 2019](#)). Compared to larger companies, MSMEs make a significant contribution to economic growth, job creation, and equitable distribution of development results. In addition, they show greater resilience in the midst of a crisis ([Aprilani, Sayuti, et al., 2023](#)). However, SMEs often face various problems, such as declining sales, difficulties with capital and distribution, difficulty obtaining raw materials, decreased production,

and layoffs of employees and workers. To overcome these problems, innovation is needed in the financial sector aimed at small and medium businesses (Indrawati et al., 2020). Micro, small, and medium enterprises (MSMEs) represent an important sector of the Indonesian economy and significantly contribute to GDP and employment. However, realizing the maximum potential of small and medium businesses is often hampered by various factors, including financial management constraints.

Innovation development in micro, small, and medium enterprises is very important in driving the country's economic growth. Through innovation, small and medium companies can increase their market productivity, efficiency, and competitiveness. Innovation can also help SMEs enter local and international markets (Adam & Alarifi, 2021). Increasing access to financing is an alternative proven to significantly improve operational performance, profitability, and productivity of MSMEs (Beck, 2013). Therefore, it is imperative to explore innovative models and interventions that can fully meet the financial and non-financial needs of formal MSMEs (Megawati et al., 2020). Apart from that, improving traditional cultural values through change is the focus of implementing innovation (Fitri et al., 2023) because in some MSMEs, innovation is needed.

Several potential innovations to strengthen MSME finances include utilizing digital technology and digitization to increase financial access, developing alternative financing options, such as peer-to-peer lending or crowdfunding, and increasing financial literacy and inclusion among MSMEs. Additionally, it is important to distinguish between different segments of the MSME population, such as subsistence micro-entrepreneurs and transformational entrepreneurs, when designing financial solutions for MSMEs (Choudhury & Goswami, 2019). This study also emphasizes the importance of market structure, competition, and regulations. "Increased access to alternative financing has resulted in significant improvements in the operating performance, profitability, and productivity of MSMEs (Beck, 2013). Therefore, it is imperative to explore innovative models and interventions that can fully meet the financial and non-financial needs of formal MSMEs (Megawati et al., 2020). For MSME financial access, highlighting how financial deepening can ease MSME financing constraints, enable enterprise entry and entrepreneurship, and ensure better resource allocation (SME Finance Working Group, 2020). Additionally, to strengthen MSME finance, it is important to address the challenges they face, including limited access to banking financing, inadequate capital, lack of access to international markets, and knowledge management (Nguyen et al., 2020).

According to Sidauruk and Saksono (2018) stated that in developing an innovation hub, the interaction between actors is required; there are 11 actors, including academics (A = academicians), groups of entrepreneurs and business people (B = business groups), creative community (C = creative community) or professional organization; donor agencies/non-governmental organizations (D = donor agencies/non-government organizations (NGO)); entrepreneurs (E = entrepreneurs), especially social entrepreneurs (social entrepreneurs); financial and banking institutions (F = financial institutions and banking); Government and local government (G = government and local government); capital investors (I = investors), especially angel investors; markets and economic agents (M = market & economic agents); journalists and mass media (P = press); and the community as beneficiaries (Pb = people beneficiaries).

The interaction of the 11 actors then developed into a concept of collaboration between these actors, which has begun to develop into a dodeca-helix with

additional actors from the banking side who can provide funding to help develop MSMEs, according to Fitri et al. (2023) that the dodeca-helix approach in the Tourism Hub can synergize stakeholders to create innovation to transform the industry even though there are challenges that must be overcome for this transformation to be realized. Dodeca helix consists of 12 actors who work in synergy with each other. The twelve actors include academics, businesses, the creative community, donor agencies/ NGOs, entrepreneurs, financial institutions and banking, government, local government and rural government, investors and industry, market and economic agents, media, and the beneficiary community. In this research, the interaction model that will be used is the dodeca-helix model, which consists of 12 actors interacting to create superior tourism. The 12 actors are academics, business, creative community, donor agencies/ NGOs, entrepreneurs, financial institutions and banking, government, local and rural government, investors and industry, market and economic agents, media, and beneficiary communities. Socioeconomic conditions and resources are the system context that forms the background for collaboration between institutions. Meanwhile, Leadership, Dependency, and Uncertainty are factors that drive Collaborative Governance (Butolo, 2022).

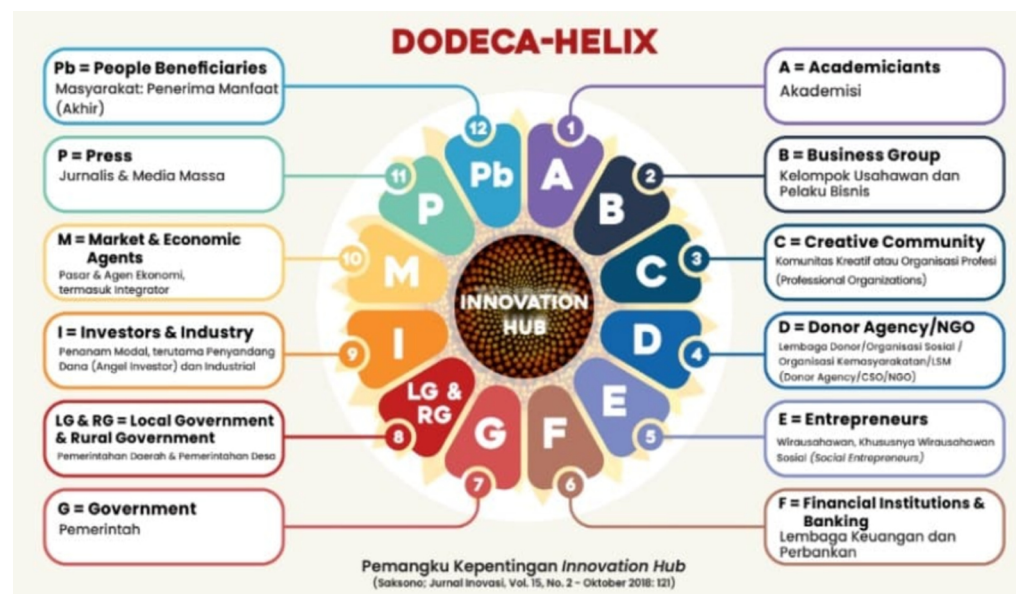


Figure 2. Dodeca Helix

Source: Sidauruk and Saksono (2018)

If we look at the economic structure of Central Lombok Regency (2023 Central Lombok Regency regional statistical data), the agriculture, fisheries, and forestry categories occupy the top percentage of around 25.07 percent. Then, the construction category had a percentage of 16.21 percent, trade had 12.24 percent, and transportation category had 11.59 percent. Meanwhile, 13 other categories played a role of 34.19 percent. Meanwhile, if we look at the economic growth from 2018, it was 3.14 percent and increased in 2019 to 4.04 percent. However, in 2020, economic growth experienced a decline due to the COVID-19 pandemic to -6.67 percent. However, in 2021, it will reach a positive trend of 4.03 and 3.55 in 2022. For more details, see Figure 3.

MSMEs have the potential to contribute to economic growth in Central Lombok Regency. MSMEs in the Central Lombok Regency Region have a diverse profile. Micro,

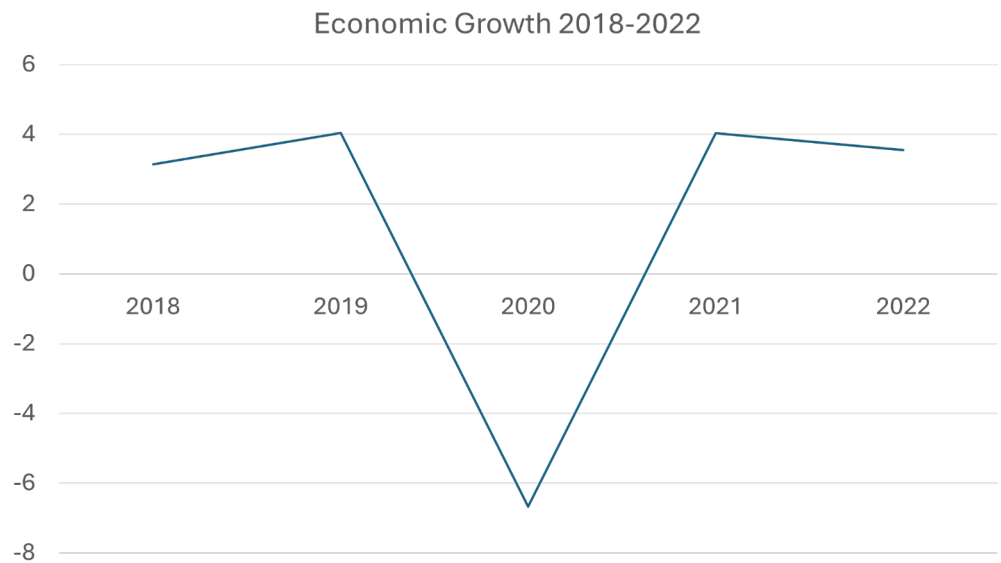


Figure 3. Economic Growth

Source: Regional Statistical Data for Central Lombok Regency 2023

small, and medium businesses operate in the Central Lombok Regency Area. Some are commercial businesses such as grocery stores and food stalls, catering businesses such as roadside stalls and cafes, service businesses such as internet cafes and laundries, and handicraft businesses such as bamboo weaving and traditional weaving. MSMEs in Central Lombok Regency have continued to develop in recent years, in line with various support and training programs provided by the local government and non-government organizations. This has positively impacted MSME players, both in terms of increasing skills and knowledge and in terms of marketing and market access. Apart from that, MSMEs in Central Lombok Regency also preserve local wisdom and regional culture. They produce various typical products using local materials, such as woven cloth, bamboo, and regional specialties. This provides economic value and strengthens local cultural identity and sustainability. Besides that, Regional Governments have many opportunities and challenges when they are given autonomy in financial management and innovation in potential financial sectors (Butolo, 2022).

Even though MSMEs in Central Lombok Regency show positive growth, they face several challenges. One of the main challenges is access to business capital. Many MSME players have difficulty accessing affordable financing and support regarding capital (Nurjannah et al., 2021). Apart from that, another challenge is product distribution. MSMEs in Central Lombok Regency often face obstacles in accessing wider markets due to limited transportation infrastructure and lack of access to an effective distribution network. Limited human resources are also a challenge for MSMEs in Central Lombok Regency. Apart from that, improvements should be made to developing MSMEs so that they can create innovative and relevant products and actively help local economic growth (Jurnal Bina Praja). Good skills and knowledge are needed to manage a business efficiently and effectively, but there is a lack of training and education that can help MSMEs develop themselves professionally. In this paper, we will discuss how innovation can answer challenges and transform MSME finances so they can compete with a collaborative approach between stakeholders.

2. Methods

This research uses a qualitative-exploratory approach (Neuman, 2014). This approach was chosen so that researchers gain a deeper understanding of the experiences and perspectives of MSME actors, the financial sector, and other stakeholders involved in MSME finance. The study locus is Central Lombok Regency. Primary data collection is carried out through 3 (three) techniques (Creswell, 2014). In-depth interviews were conducted with MSME actors, the financial sector, and other stakeholders involved in MSME activities and ecosystems. Next, observations were carried out on activities to gain a better understanding of the daily operations and challenges faced by MSME players. In an effort to confirm the data and information obtained, a focus group discussion (FGD) was then carried out as part of the triangulation technique in qualitative methods (Herdiansyah, 2013). Sources/informants and respondents in this research include 1) MSME actors; 2) Financial Sector; 3) Central Lombok Regency Government Officials; 4) Representatives of the Private Sector and/or the Business World who are related; and 5) Society. Specifically, the analysis technique used consists of 1) content analysis in the form of thematic analysis of interview transcripts, FGD transcripts, and observation notes to identify main themes and patterns; 2) theory development (grounded theory), especially regarding innovation and based on collected data; and 3) narrative analysis as an expression of actual conditions as told by MSME actors, regional governments and other stakeholders to understand their experiences and perspectives (Sugiyono, 2019).

3. Results and Discussion

Innovation is very important for a country's economic growth. Innovation enables micro, small, and medium enterprises (MSMEs) to increase their market productivity, efficiency, and competitiveness. Innovation can also help MSMEs access new markets, both local and international (Adam & Alarifi, 2021). Developing new products or services that meet customer needs better or differently than existing ones is one example of innovation that MSMEs can carry out. This makes it possible to adopt new technology to improve production and marketing processes to produce products or services with better quality and more competitive prices. With the right support and facilitation from the government and other institutions, MSMEs can continue encouraging innovation for sustainable economic growth. MSMEs benefit from innovation in terms of efficiency and competitiveness (Musneh et al., 2021).

Innovation is also expected to improve the welfare of society as a whole. MSMEs can create new jobs, increase people's income, and even contribute to environmental and social development through innovation (Herlinawati & Machmud, 2020). Apart from that, efforts to encourage innovation in MSMEs can also positively impact other areas of the economy. This can lead to the growth of supporting industries, increased demand for local raw materials, and increased exports of local products (Herlinawati & Machmud, 2020; Sunaryo, 2020). Several innovations have been implemented by the Central Lombok Regency Government, which in the results and discussion of this Paper will be explained as follows:

3.1. Policy, Support and Collaboration Between MSME Actors

The number of MSMEs in Central Lombok Regency is still in 8th position out of 10 Municipal Districts in West Nusa Tenggara Province as depicted in Table 1.

Several factors can influence the condition of MSMEs in Central Lombok Regency, including local government policies, limited human resources, limited infrastructure,

Table 1. Number of MSMEs by Type in West Nusa Tenggara Province

No.	Name of Regency/City	Micro	Small	Medium	Total
1	Mataram City	15746	6194	533	22471
2	Bima City	6621	1152	132	7905
3	West Sumbawa	5715	303	23	6042
4	East Lombok	4261	34	2	4297
5	West Lombok	3612	366	0	3978
6	Dompu	1323	112	1	1436
7	Sumbawa	959	46	4	1009
8	Central Lombok	309	11	3	323
9	Bima	307	7	3	317
10	North Lombok	145	71	95	311
Total		38999	8296	796	48091

Source: Data Processed From West Nusa Tenggara Satu Data 2020

and collaboration between the government, educational institutions, and MSME actors. To overcome this problem, local governments must implement policies that support the development of MSMEs. The government and other parties must provide attention and support to overcome this problem. They need easier access to cheap financing and training programs designed to meet the needs of small and medium enterprises (MSMEs) in Central Lombok Regency. Apart from that, an institution or business entity must focus on developing and empowering MSMEs. This is done so that MSME players can better understand business management, marketing, and innovation. Small and medium businesses (MSMEs) in Central Lombok Regency face the problem of insufficient human resources. Many small and medium enterprises (MSMEs) face difficulties finding qualified employees with skills that suit their business needs. Collaboration between the government, educational institutions, and MSME players must be increased to overcome this. This will be possible through training and education that is appropriate to the needs of the job market (Maxwell et al., 2020).

MSMEs in Central Lombok Regency have a lot of market potential, especially because customer interest in local and sustainable products is increasing. Small and medium enterprises (MSMEs) can produce goods that appeal to local and international markets by utilizing local wisdom and unique local culture. Collaboration with tourism industry players can also provide opportunities for MSMEs to market their goods (Ayuningrum & Srinanda, 2021). Several steps have been taken by the Regional Government of Central Lombok Regency, one of which is initiating a Draft Regional Government Regulation (Ranperda) concerning the Creative Economy. Apart from that, there is support and potential from several actors involved in developing MSMEs. From the Penta helix concept and development to the dodecahelix, which is adopted in this paper.

Some MSME actors can interact by forming networks and collaborating. Companies can achieve economies of scale by collaborating with other MSME actors, gaining access to new markets, sharing best practices, and collectively negotiating with suppliers or buyers. Additionally, MSME actors can participate in joint marketing initiatives, co-create goods or services, and even share distribution channels to reach a larger consumer base (Singh et al., 2019). One other way that MSME actors can interact is by participating in industry associations and exhibitions. By participating in both events, MSME actors can connect with colleagues, learn about the latest

market and technology trends, and build relationships with potential customers or investors. In addition, this interaction can result in advocacy efforts where MSME actors jointly express their needs and concerns to government institutions and policymakers. Interactions like this can lead to policies and regulations that better support MSMEs and a business environment that supports their progress. According to [Hazaa et al. \(2021\)](#), MSME actors must actively interact with their customers and know what they think about their goods and services.

The interactions and roles of MSME actors in Central Lombok district can be identified into 6 (six) actors who have their contributions and roles, including (1) Regional Government, (2) Higher Education, (3) Business World, (4) Financial Institutions; (5) Community; (6) Media. The role of each actor can be seen in [Figure 4](#).

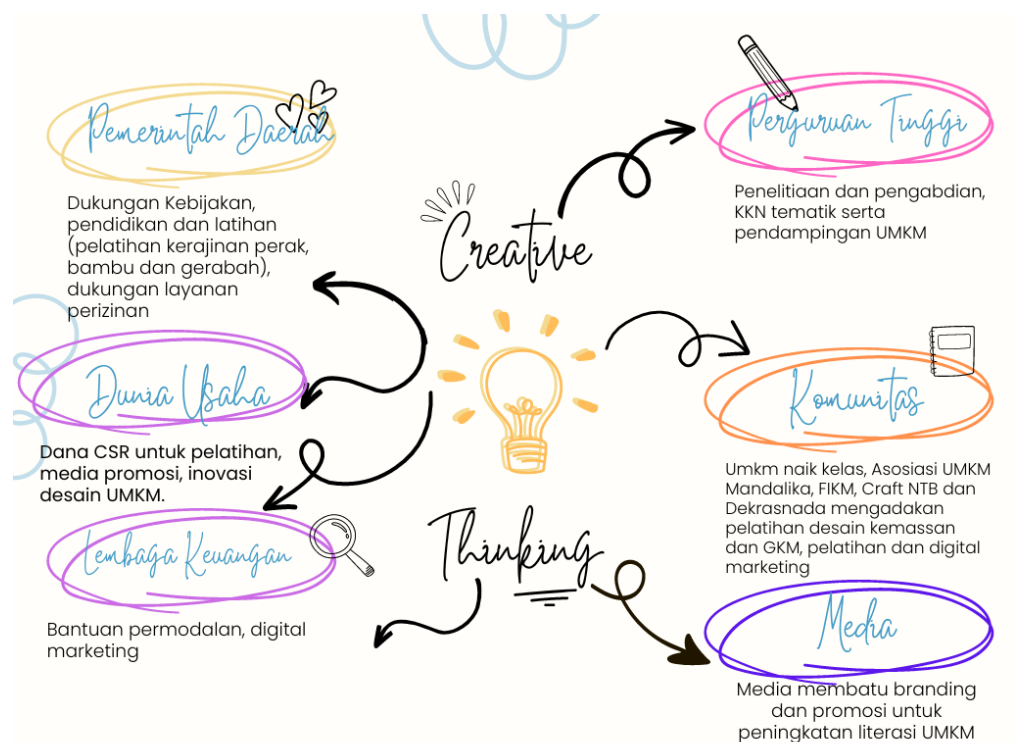


Figure 4. The Role of Actors in MSMEs in Central Lombok

Source: Regional Statistical Data for Central Lombok Regency 2023

In conclusion, fostering interaction between MSME players is the key to their growth and sustainability. Whether through traditional partnerships or digital platforms, MSMEs can benefit from coming together to increase their competitiveness and contribute to overall economic development ([Thomas & Paul, 2019](#)). By interacting and collaborating, MSME players can share knowledge, resources, and opportunities to overcome challenges and achieve new market prospects jointly. The government needs to create a conducive business environment that supports and empowers MSMEs. The government must maintain economic stability, support healthy competition, minimize regulations that hinder MSMEs, and facilitate MSMEs' access to markets and finance. In this way, MSMEs can develop and continue to play an important role in driving economic growth and job creation ([Ngai et al., 2008](#)).

3.2. Financial Innovation in MSMEs

Innovation is very important for MSMEs because it helps them adapt to market changes, technology, and consumer needs. By innovating, MSMEs can create added value to the goods or services they offer, differentiating them from competitors and attracting consumer interest (Widya-Hasuti et al., 2018). In addition, MSMEs can increase operational efficiency, reduce production costs, and improve the quality of their products or services through innovation. This will help them stay competitive in an increasingly competitive market (Kamalrulzaman et al., 2021). Apart from that, thanks to innovation, MSMEs can find new markets at home and abroad. MSMEs can increase their growth potential and expand their business reach by creating new goods or services. Innovation can also improve community welfare, generate new jobs, and contribute to social and environmental development (Rizki et al., 2019). In this way, innovation not only benefits individual MSMEs, but also has a broader positive impact on the economy and society.

One of the innovations in the financial sector is the actions taken by MSMEs to create innovative solutions to manage their finances. This has the potential to improve financial management, increase financial access, and reduce the financial risks faced by MSMEs (Binti Mohamad Ibrahim et al., 2018). The use of financial technology (fintech), such as electronic payment platforms, peer-to-peer financing, crowdfunding, and mobile application-based financial services, are some examples of financial innovation that can be carried out by small and medium enterprises (MSMEs). This financial innovation can also help MSMEs get easier and faster access to financing and financing to develop their businesses. Financial innovation can also include creating special financial products that meet the needs of MSMEs, such as microloans with competitive interest rates or special insurance for MSMEs (Mutamimah & Hendar, 2020). MSME financial innovation includes providing training and assistance in using technology in financial transactions and financial reporting, starting with very simple applications. This is greatly helped by the role of local governments and communities in assisting MSMEs in financial literacy and digital literacy. It is hoped that digital literacy can help increase the productivity of MSMEs.

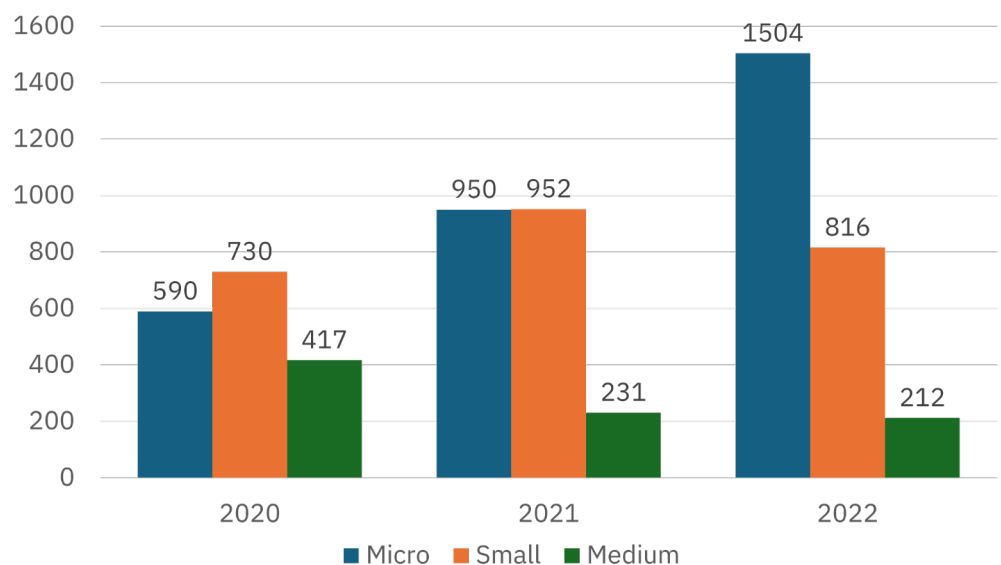


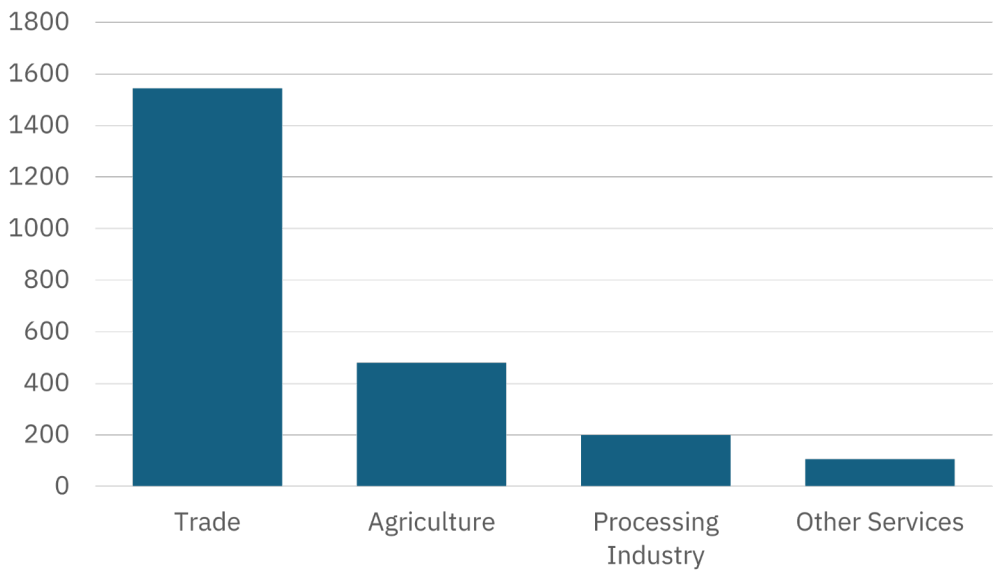
Figure 5. Position of MSME Credit Provided by Banks Based on Business Scale in Central Lombok Regency 2020–2022 (in Billions of Rupiah)

Source: Central Lombok Statistical Data for 2023

Apart from that, financial institutions also distribute credit to MSME entrepreneurs to support the smooth production of micro, small, and medium enterprises (MSMEs). In Central Lombok, in 2022, credit disbursed to MSMEs increased by 18.68 percent, with a credit value of 2.53 trillion rupiah. Credit of 1.50 trillion rupiah was distributed to Micro Enterprises, 816 billion rupiah was distributed to small businesses, and 212 billion rupiah was distributed to medium enterprises.

Of the total credit disbursed by Commercial Banks to MSMEs, the largest credit was disbursed to MSMEs operating in the Trade sector, reaching 1.54 trillion rupiah. Then the Agriculture and Processing Industry sectors worth 479.48 billion rupiah and 199.58 billion rupiah, respectively and Other Services amounting to 105.79 billion rupiah, as depicted in Figure 6.

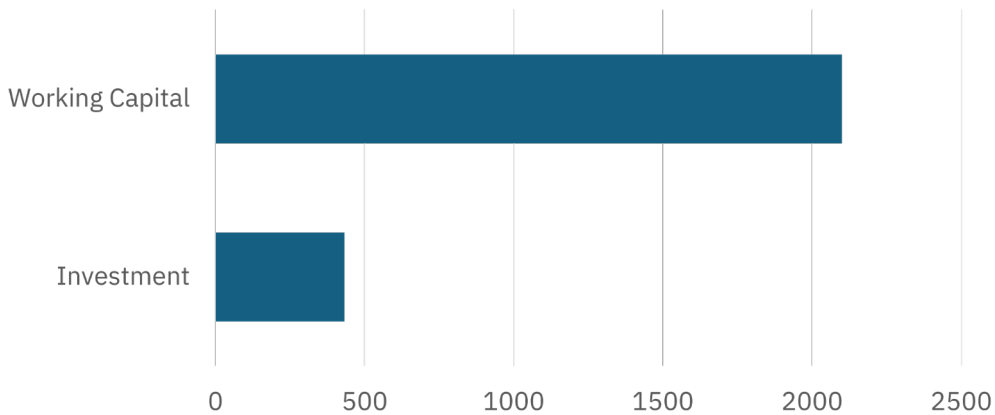
Figure 6. Position of the Largest MSME Credit Provided by Banks According to Economic Sector in Central Lombok Regency in 2022 (in Billions of Rupiah)



Source: Central Lombok Statistical Data for 2023

If we look at the type of use, almost all of the credit MSMEs receive is used for working capital. Only 17.06 percent was used for investment, or around 432.04 billion rupiah. For more details, see Figure 7.

Figure 7. The Largest MSME Credit Position Provided by Banks According to Type of User in Central Lombok Regency in 2022 (in Billions of Rupiah)



Source: Central Lombok Statistical Data for 2023

Innovation in MSME finance is crucial in supporting the growth of this sector. One of the innovations currently developing is financial technology (fintech) to provide MSMEs with easier access to finance. With the fintech platform, MSMEs can access services such as online loans, payment gateways, and financial management more quickly and efficiently. One of the innovations designed and implemented by MSMEs in Central Lombok Regency is using the Buku Warung Application. Buku Warung is a solution for bookkeeping and financial reporting for MSMEs through digital payment and recording features. In digitalization, another innovation is integrating the MSME financial system with e-commerce platforms and marketplaces. Several marketplaces have been initiated for access by the Regional Government, such as Bukalapak, Shopee, and Tokopedia. This can expand market access and increase the efficiency of transaction processes for MSMEs.

Innovation in MSME finance is key to strengthening the MSME ecosystem and supporting overall economic growth. By continuing to encourage and develop these innovations, it is hoped that MSMEs can further develop and contribute more to the national economy. Innovation in MSME finance also includes the development of payment administration systems that make transactions with customers easier, such as implementing digital payment methods or wallets. With these innovations, it is hoped that MSMEs can optimize their financial management so that they can increase business development, expand market share, and achieve sustainable growth.

4. Conclusion

To open up growth opportunities and increase competitiveness in the digital era, the financial transformation of MSMEs through innovation is the key. Various financial technologies (fintech) offer innovative solutions for various aspects of MSME finance.

Accounting software and digital payment applications can increase efficiency and transparency in financial management. Easier access to financial services such as credit and online loans can help small and medium enterprises (MSMEs) increase capital and develop their businesses. Using e-commerce platforms and marketplaces also opens up new opportunities for MSMEs to market their goods online and reach a wider market. Increasing brand awareness and attracting new customers can be achieved through the effective use of digital marketing and social media strategies.

To support the financial transformation of MSMEs, the Government and various related parties must continue to work together. This can be achieved by providing adequate digital infrastructure, fintech education and training programs, and regulations that support the growth of MSMEs. What needs to be paid attention to is that the government and various related parties need to continue to work together to support the financial transformation of MSMEs. This can be done by providing adequate digital infrastructure, education, and training about fintech, as well as regulations that support the development of MSMEs.

4.1. Recommendation

This study recommends that the government, private sector, MSMEs, and other stakeholders work together to overcome challenges and realize financial improvements for MSMEs through sustainable innovation in Central Lombok Regency. Recommendations related to strengthening network innovation between actors and MSME finance, among others:

1. The government, in this case, the Financial and Banking Institutions, the Ministry of Cooperatives and Micro, Small and Medium Enterprises (K-UMKM), together with the Provincial Government of West Nusa Tenggara (NTB) and the Regional Government of Central Lombok Regency provide financial support for innovations that have MSMEs have initiated to maintain their sustainability.
2. The Central Lombok Regency Government, together with financial institutions, is preparing a digital transformation and digital marketing training program for the MSME cluster, which has the potential to expand the market internationally.
3. All stakeholders are preparing a more sustainable collaboration concept to maintain the innovation initiated and designed.
4. The speed of response from regional leaders of MSMEs and other sectors whose role will be in creating innovations that are both initiated and ongoing.

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