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Submission date: 17-Jul-2023 05:56PM (UTC+0700)

Submission ID: 2132515581

File name: 1689477249.docx (61.95K)

Word count: 3083

Character count: 18783

The Role of External Assistance in Enhancing the Innovation Capacity to MSMEs in West Java, Indonesia

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Abstract

This article examines the impact of MSMEs on economic development in Depok City, Indonesia. The study uses a combination of literature review and data analysis from observations. The results show that MSMEs can increase GDP, but many MSMEs are not aware of or do not take advantage of available programs and consulting services. The researchers suggest a more detailed and comprehensive approach, to improve the effectiveness of external assistance programs including the establishment of clinic offices in each region, increased exposure through roadshows and collaboration with local businesses, and capital assistance. Further research is needed to understand the low economic growth and production among MSMEs. The Indonesian government has implemented several programs to support MSMEs.

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Keywords: MSMEs, economic development, Depok City, Indonesia, literature review, data analysis, observations, GDP, programs, consulting services, external assistance programs, clinic offices, roadshows, collaboration, local businesses, capital assistance, economic growth, production, Indonesian government

1). Introduction

MSMEs are an important contribution to sustainable development involment to economic growth, creation of decent jobs, provision of public goods and services, as well as poverty alleviation and reduction of inequality. MSMEs are a major part of the total private sector entities in both developed and developing countries. MSMEs help reduce poverty through job creation and economic growth, they are key drivers of employment, decent work and entrepreneurship for women, youth and groups in vulnerable situations. They are the majority of the world's food producers and one of keys an important role in closing the gap in ensuring effective participation in the economy and society.

1.2) MSMEs of Depok Area and Discussing

The Depok City Government through the Depok City Micro Enterprise Cooperative Service (DKUM) launched a new business program. The program is one of the steps to revive the economy in Depok City. Regional Apparatuses, such as Leaders throughout Depok City were asked to invite *official staffs* in their respective work units to set aside their income with shopping for Micro Enterprises (MSMEs) products in Depok City. MSME products can be obtained at District MSME Communities, and Depok Cooperatives.

One of the Depok Government Facilities Government Regulation Number 23 of 2018, with the hope that this Final Income Tax discount will become an opportunity to be used for business expansion.

Other facilities, Micro, Small and Medium Enterprises continue to be developed in each region, training for MSME entrepreneurs is one of the government programs aimed at MSME entrepreneurs to improve the quality of their products. One area that continues to improve the MSME business sector is Depok City. In 2019, the number of registered MSMEs in Depok City reached 2,746.

Depok City continues to create a program that makes people want to continue to improve their business. The Depok City government continues to encourage actors to continue improving their businesses and to provide motivation for the community to continue to grow and use the facilities provided by the government. They are able to use injections of funds through loans from banks.

1. 3) Problem Formulation

- 1) Is there any effect of increasing production on the external assistance program for Micro, Small and Medium Enterprises (MSMEs) in Depok City?
- 2) Is there any effect of increasing external aid on the economy of Micro, Small and Medium Enterprises (MSMEs) in Depok City?

1. 4) Research Objectives

1. Analyzing the effect of income on decision-making for Micro, Small and Medium Enterprises (MSMEs) in Depok City.
2. Mapping and analyzing the effect of external aid literacy on Micro, Small and Medium Enterprises (MSMEs) in Depok City.

1. 5 Criteria of MSMEs

According to the Law of the Republic of Indonesia No. 20 of 2008, MSMEs are defined as productive businesses owned by individuals or individual business entities that meet certain criteria. Micro-enterprises, stated in Article 1 of the law, are businesses with assets up to 50 million, excluding land and buildings, and a maximum annual sale of 300 million. Article 2 defines Small Enterprises as independent productive economic enterprises run by individuals or business entities that are not subsidiaries or controlled by medium or large businesses.

Depok is a strategic city in terms of trade because it is directly adjacent to the capital city of Indonesia, DKI Jakarta, Indonesia.

Background of the Problem Micro, Small and Medium Enterprises are one type of business that plays a very important role in increasing employment and as a driving force for the Indonesian economy. This condition indicates a shift in perspective that MSMEs play an important role as seen from their contribution in increasing employment opportunities and reducing poverty. Therefore, the government is trying to advance the Indonesian economy by cultivating MSME management.

MSMEs play a significant role in economic development, contributing to the growth of GDP in both developed and developing countries (Mukti, 2016). In Indonesia, MSMEs make up 99.99% of the market share, with 62.9 million units, and employ more than half of the workforce (Haryanti

& Hidayah, 2018). MSMEs have proven to be resilient during global crises and serve as a driving force for the national economy.

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1 The number of MSMEs in Depok City, Indonesia, broken down by district for the years 2010 and 2019 1

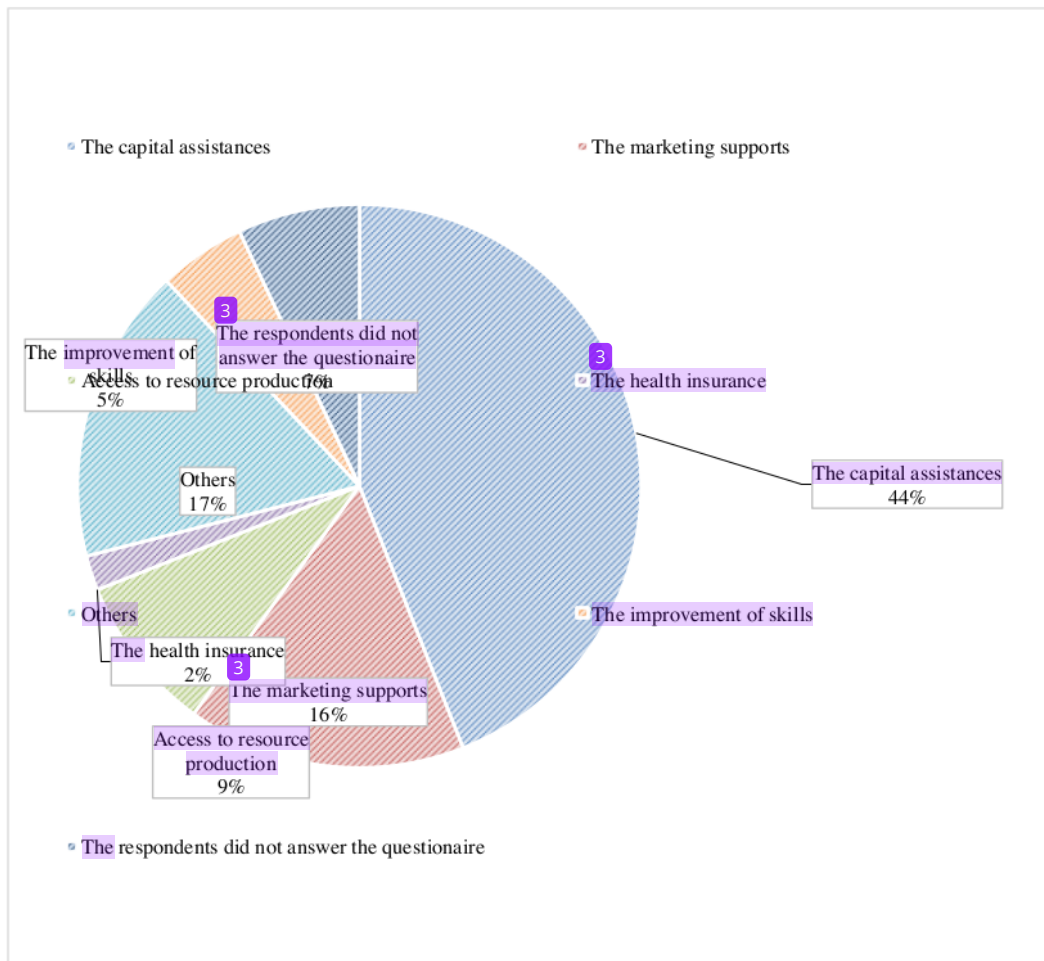
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1	Beji	269
2	Bojongsari	125
3	Cilodong	337
4	Cimanggis	274
5	Cinere	54
6	Cipayung	187
7	Limo	140
8	Pancoran Mas	441
9	Sawangan	166
10	Sukmajaya	455
11	Tapos	298

The total number of MSMEs in Depok is 2746

Challenges faced by MSMEs in West Java, Indonesia

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Referring to the graph above, around 44 percent of MSMEs need capital assistance, 16 percent need marketing support, 9 percent need access to production resources, and 2 percent need health insurance.

1. 5). Materials and Methods

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This article is based on observations of the author's environment and combines literature review and data interpretation methods. The literature review aims to find relevant sources for the development of the theory used in this writing, including articles, journals, books, and official websites. The interpretation of observational data includes both qualitative data from interviews and quantitative data from counting objects and respondents. In the article discussing the role of tertiary institutions in developing MSMEs, quantitative data comes from the number of sources. Data from observations and research results are combined with data from literature studies to test the validity of library data and provide incomplete library data.

The research process includes keeping track of academic literature, conducting a literature review, analysing documents and data, writing research reports, and conducting focus group discussions to get feedback on the research report design.

The purpose of qualitative research is to develop a concept that helps us understand social phenomena in natural settings by emphasizing the meaning, experience, and views of participants (Pope and Mays, 1995: 43).

1. 6). Result and Discussion

Research Questions;

(1). How can MSMEs obtain assistance to overcome their financial challenges?

Bank Indonesia¹² as the central bank, is committed to providing its best contribution through policies that support the development of Micro, Small and Medium Enterprises (MSMEs) by increasing their access to finance. These efforts aim to build the managerial capacity and capability of human resources within MSMEs while promoting innovation.

As part of its strategic program, Bank Indonesia implements MSME development policies that focus on strengthening monetary policy effectiveness, promoting rupiah stability, managing the current account deficit, and supporting sustainable economic growth. Additionally, the bank works to maintain financial system stability through macroprudential policies and supervision.

Bank Indonesia also seeks to develop policies that support digital economic and financial development, as well as sharia economic and financial development, in synergy with government and OJK policies. The bank has prepared an MSME Roadmap that includes four important stages: potential MSMEs, successful/link-to-market and financial MSMEs, digital-going MSMEs, and export-going MSMEs.

The scope of MSME product development includes volatile food, local economic development, and Bank Indonesia Entrepreneurship. Development efforts focus on increasing access to finance, markets, knowledge, networks, innovation, and digitalization. Infrastructure and institutional support also play a critical role in creating an optimal MSME ecosystem through regulatory/policy support, financial inclusion, consumer protection, education/literacy, business models, monitoring and evaluation, as well as strengthening institutional arrangements and information systems.

Despite these efforts by Bank Indonesia to support the development of MSMEs in Indonesia through stronger corporatization, more accurate information and data, optimal coordination between government ministries/agencies, greater utilization of innovation and technology, and the creation of supporting ecosystems.

The programs have not been well received in 90% of MSMEs' actors.

- ¹
- 2). Using an advisor involves personal interaction between the business owner and the external advisor.

Working with an advisor usually involves ² personal interaction between the business owner and the advisor. This helps the advisor understand the business's specific needs and challenges, allowing them to provide customized advice and support.

Only 50 percent of MSMEs' actors are aware of advisors.

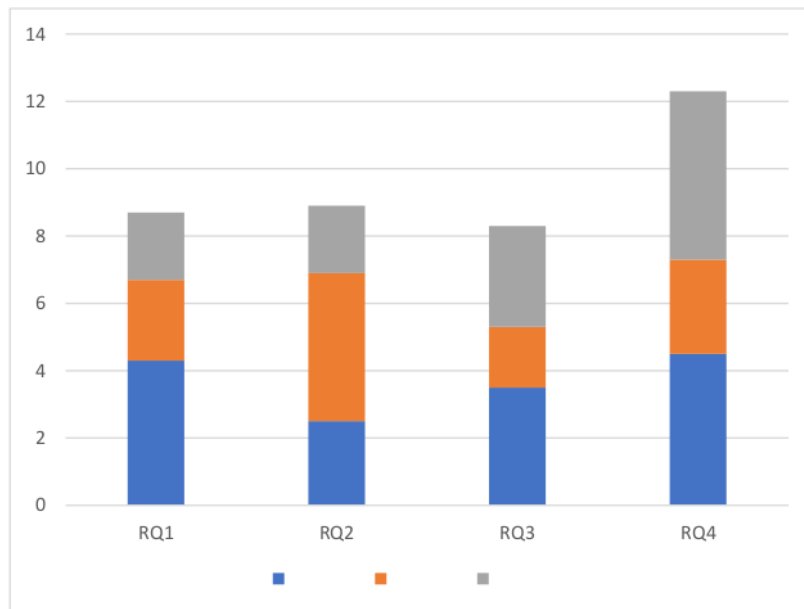
- 3). Do MSME actors seek assistance through consulting services?

Due to their limited knowledge, 50% of MSMEs are willing to engage consulting services to interact with external parties. With the support of government facilities, 90% of MSMEs utilize consulting services to gain attention from external parties.

- 4). If MSMEs decline the assistance offered, are the obstacles they face communicated effectively to become a consideration in supporting MSMEs?

MSMEs in West Java use mentoring services for coaching. For instance, BNI, a state-owned bank, signed an MoU with Forever Harvest Success, representing Indonesia's wholesale supplier of 80 partner retail stores in Hong Kong. The signing was part of the Regional Trade Talk Series at BNI Region 04 Bandung, themed 'UMKM Go Global: How to Become a Superior Exporter and Optimize Global Market Opportunities.' Expert speakers explained strategies to help West Java MSMEs succeed in the global market.

With the support of government facilities,² 90% of MSMEs utilize consulting services to gain attention from external parties.



Research Question 1. The actors of MSMEs didn't respond well to the programs, with 90 percent of them not wanting to get involved.

Research Question 2. Only 50 percent of MSMEs' actors are aware of the programs.

Research Question 3. With government facilities available, 90 percent of MSMEs use consulting services to get attention from external parties.

Research Question 4. With government facilities available, 90 percent of MSMEs use consulting services to get attention from external parties

Conclusion

The research findings show that effectiveness and interactivity are reliable indicators for external assistance programs. Organizational structured performance can provide competitive results, such as empowering MSMEs more broadly in a short time and facilitating information sharing between customers has contributed to increasing the use of facilities by external assistance which has helped improve the synergy of MSMEs, especially capital assistance which functions as a competitive advantage.

The findings of this study support the four hypotheses put forward and allow researchers to gain insight into campaign factors among MSMEs themselves.

The suggestions based on our research findings are as follows;

- 1) The external assistance program must be implemented in a more detailed and comprehensive manner to achieve the target.
- 2) Actors external assistance should create clinic offices in each region, which are easily accessible to MSME actors. This office was created to simplify and speed up solving MSME problems.

The researcher's recommendation adopted by MSMEs and related parties is to increase MSMEs' exposure through participation in roadshows and collaboration with local and more well-known business actors with the aim of increasing cooperation.

This research achieves the objectives, the researcher recommends that further research be conducted to confirm findings regarding the low economic growth of MSME actors, and the low increase in production which has been described from analysis research Questions 1/4. We recommend digging deeper into the existing problems from external parties and MSMEs in every region in Indonesia.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The authors received no financial support for the research, authorship, and/or publication of this article.

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