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Government strategy to revive SMEs from post-COVID-19 collapse: Analysis of economic improvement for lower class communities in Jakarta, Indonesia

Andi Saiful-Haq*, Endang Tirtana, Azhari Aziz Samudra, Evi Satsipi

Department of Doctorate Public Administration, Universitas Muhammadiyah Jakarta, Banten 15419, Indonesia

* Corresponding author: Andi Saiful-Haq, andi.saifulhaq@student.umj.ac.id

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Abstract: This research aims to determine the strategy of the Jakarta Provincial Government in increasing the resilience and growth of small and medium enterprises (SMEs) within a collaborative governance framework post-COVID-19. This study explores the effectiveness of SMEs and facilities in accessing financing and fostering collaborative partnerships between SMEs, government agencies, and financial institutions by utilizing USAID's Theory of Change (TOC). This research uses a qualitative approach supported by in-depth interviews and Focus Group Discussions to enrich the insights of SME stakeholders, large companies, and SME actors and assess the impact of their roles. The results of this research highlight the critical role of SME Cooperative Banks (SCB) in improving SMEs' access to credit and financial services, including collaborative governance frameworks and partnerships between SMEs, government agencies, and banks, which were identified as necessary to improve policy coherence and encourage conducive SME business environment conditions. The main findings of this research underscore the importance of the SCB model, demonstrating its potential to improve SME resilience and economic sustainability. This SCB model enriches the TOC indicators introduced by USAID. The study identifies gaps in digital infrastructure and market access that hinder SME growth and recommends targeted interventions to address these challenges. This study shows that SCB offers a promising pathway to increase the resilience and growth of SMEs in Indonesia, especially if accompanied by effective collaborative governance strategies. These initiatives can encourage inclusive economic development and strengthen the role of SMEs as drivers of the local economy. Recommendations include expanding the SCB model to other regions, encouraging digitalization, facilitating market access, advocating for a supportive policy framework, and integrating these strategies to advance the principles of USAID's Theory of Change, fostering sustainable SME development and economic resilience.

Keywords: SME collaboration; innovation; Theory of Change; sustainability; SME Cooperative Banks; economic recovery

1. Introduction

Studies from various regions reveal that COVID-19 has significantly impacted SMEs worldwide. In India, Behera et al. (2020) highlight how the pandemic not only burdened the economy and social activities but also reduced the economic contribution of SMEs. Similar effects were observed in Ethiopia. Endris and Kassegn (2022) assert that while SMEs have the potential to make a significant impact during COVID-19, they face obstacles such as financial issues, access to electricity, and trade regulations. They recommend comprehensive government policies to address these challenges. Rwanda also experienced similar impacts, with

Celestin (2020) explaining how many SMEs lost their revenue overnight due to the pandemic.

In Latin America, Guerrero et al. (2021) report that COVID-19 and government aid had minimal impact on small and informal businesses requiring more awareness and less likely to benefit from aid programs. Camonita et al. (2022), studying SMEs across the European Union, discuss how COVID-19 transformed the European SME landscape, prompting the European Economic and Social Committee to propose a recovery strategy focused on emergency support, regulation, training, skills, innovation, and competitiveness. These studies collectively underline the extraordinary impact of COVID-19 on SMEs globally and emphasize the importance of robust government policies and support to facilitate economic recovery.

In Indonesia, small and medium enterprises (SMEs) are the backbone of the economy in developing countries (Morales Pedraza, 2021). Over 110 million SMEs in Indonesia have built a strong and sustainable economy, significantly impacting the country's GDP (Ichsan, 2022). From 2018 to 2019, SMEs contributed about 56%–59% to the national GDP, with 46% from domestic manufacturing output and 43% from exports. Over 110 million people also work in SMEs (Mariyudi, 2019). The Ministry of SMEs explains that to strengthen the backbone of the national economy, the government aims to increase its contribution to GDP to 50% by 2028 in collaboration with banks and large companies (Halim et al., 2023).

However, from 2019 to 2022, COVID-19 significantly impacted the development of SMEs in Indonesia, leading to a decline (Velavan and Meyer, 2020). Given the considerable challenges posed by the economic and social impacts on the community, the government designed policies to save and provide business funding incentives for SMEs (Vecchio et al., 2020). The growth in the number of SMEs has declined in recent years due to economic shocks, high inflation, and the ballooning government debt that can no longer support the SME sector.

Impact on Jakarta

According to a study by Olanipekun and Sutrisna (2021), the capital city of Jakarta experienced the most significant impact due to the large number of SMEs. The COVID-19 pandemic dismantled the grassroots economic system. The Jakarta government closed most SMEs, causing them to lose opportunities for survival, and most SMEs experienced a decline in revenue (see **Figure 1**). Furthermore, in June 2020, the Katadata Insight Center Indonesia surveyed 204 SMEs in Jakarta. The survey showed that 62.6% of SMEs experienced a more than half revenue decline, and 37.4% went bankrupt (Pusparisa, 2020).

The Jakarta City Government has formulated several strategies in collaboration with banks and large companies to expedite the realization of banking credit to the SME sector. First, banks will provide People's Business Credit subsidies at an interest rate of 9%, significantly lower than the current rate of 19% per year (Erlando et al., 2020; Nadja et al., 2021). Second, the government offers income tax relief to SMEs with a net worth of up to \$640,000 (Safitri et al., 2021). Third, companies will swiftly distribute CSR funds to help thousands of SMEs affected by COVID-19. These measures are expected to foster collaborative governance between the

government and banks to advance the development of SMEs.

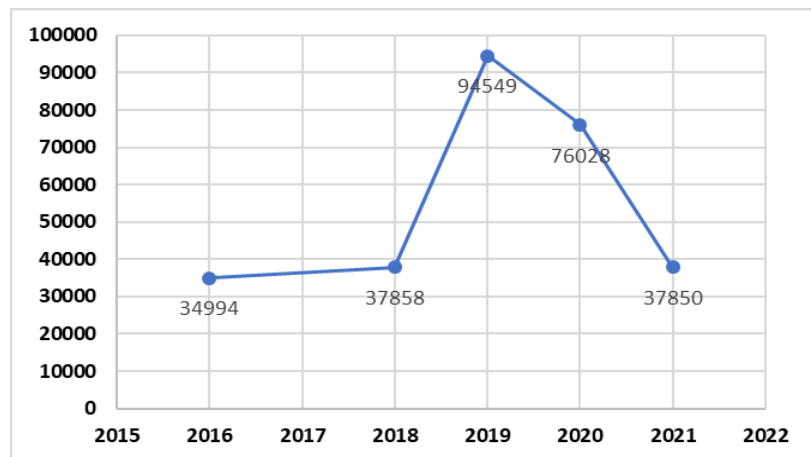


Figure 1. Number of SMEs before and post-COVID-19 in Jakarta City (Kusnandar, 2021).

Despite these efforts by the Jakarta City Government, SME growth remains stagnant, raising important questions: What are the main underlying issues preventing SMEs from recovering and thriving? How can SMEs address these fundamental problems to survive and recover? This research aims to provide an overview of the best collaborative strategies SMEs can immediately implement to support their recovery, including the innovative establishment of a Cooperative SME Bank.

2. Methods

This study employs a qualitative approach with a phenomenological study (Öhlén and Friberg, 2023; Wainwright et al., 2023) aimed at explaining phenomena through individual life experiences (Tsang and Maden, 2021). The research uses in-depth interviews and Focus Group Discussions (FGD) structured as interview lists (DeJonckheere and Vaughn, 2019; Findley et al., 2022). Key informants were selected using purposive sampling (López, 2022). The authors developed the interview list and FGD eligibility criteria aligned with the research objectives (Dhir and Gupta, 2021). The validity of the research findings is supported by the triangulation method, a technique for checking data by re-verifying information through field observations and revisiting SME actors at different times from previous interviews (Sumada and Samudra, 2023).

2.1. Research materials

Researchers, assisted by university staff, validated data from various perspectives to minimize bias. Relevant documents and regulations from the government were reviewed, including Law Number 20 of 2008 on SMEs, Minister of Cooperatives and SMEs Regulation Number 4 of 2023, and Jakarta Governor Regulation No. 53 of 2021 (Aidi et al., 2023). This information was used to compile the interview list, which was tested on 5–6 SME owners in the initial trial.

2.2. Determination of informants

Researchers identified informants directly involved in and knowledgeable about the research theme. Interviews were conducted from 16 June to 29 November 2023. The study involved 52 informants from various sectors, including Provincial Government SMEs and Small Entrepreneurs Association; large companies; and SME actors from various sectors such as restaurants, food and beverage businesses, transportation, warehousing, household industries (e.g., garments, leather, shoes, bags, children's toys, T-shirts, wigs, computer accessories, car accessories, Traditional culinary foods, and cooking spices), traditional medicine traders, and traditional food vendors. FGD was conducted twice with SME groups. Researchers ensured access to information that could identify participants during or after data collection.

3. Literature review

The OECD (2022a) presents compelling data in a report sampling 124 countries that implemented support for SMEs. The OECD concludes that the COVID-19 pandemic significantly impacted SMEs, with more than 50% reporting revenue declines and bankruptcy risks at the height of the crisis (OECD, 2022b). Similarly, the International Trade Center (ITC) reports that micro and small enterprises were the most affected, with nearly two-thirds of these SMEs experiencing significant impacts from the crisis and 40% representing macro businesses (ITC, 2020). The International Labor Organization (ILO, 2020) notes that SMEs in developing countries were more severely affected due to limited government support and resource allocation.

In Romania, research by Antonescu (2020) explains that SMEs are the most vulnerable sector due to their size, operational scale, and limited financial and managerial resources. The SME sector was among the hardest hit during the COVID-19 crisis in 2020. A study conducted by Caballero-Morales (2021) in Latin America highlights that the negative impact of COVID-19 was evident on SMEs, most of whom are family-owned and bore significant economic burdens.

Regarding this research, the latest findings from the OECD must be highlighted. The Director of the OECD Center for Entrepreneurship, SMEs, and Development stated that the slow growth of SMEs is not solely due to COVID-19; however, the increase in bankruptcies reflects that SMEs have obtained short-term financing (OECD, 2024). Credit tightening is evident in various countries using the Banker Lending Survey method for all bank customers, including SMEs. The main factors justifying the bank's position in lending to SMEs are a) poor economic prospects for SMEs, b) stagnation in interbank lending and rising capital costs for SMEs, and c) banks' desire to build better balance sheets under cross-sector pressure (Alhalawi and Dammak, 2024). Consequently, they seek fully secure transactions (Aničić and Paunovic, 2022). In Serbia, most SMEs have implemented innovations in savings and survival strategies. The choice of strategy depends on the severity of the revenue decline's impact on individual business segments and specific SMEs (Paunovic and Aničić, 2021).

According to a USAID study, SMEs, which significantly drive GDP and

employment in many developing countries, are popular targets for donor assistance. To help them, USAID designed activities to stimulate SME growth, profitability, and employment. The Bureau for Economic Growth, Education, and Environment (E3), Office of Trade and Regulatory Reform (TRR), and trade and competitiveness activity (TCA) showcased their latest research by interviewing SME development experts to articulate a general theory of change and present surrounding evidence. This analysis also highlights debates, criticisms, demographic and contextual factors of each theory of change, gaps in evidence, and implications for interventions, evidence, and project impact design. As summarized in **Table 1**, USAID research shows that impact levels vary significantly among types of interventions (USAID, 2019).

Table 1. Theory of Change: SME development with five categories (USAID, 2019).

No.	Intervention category	Types of intervention
1	Business management	Training
		Consulting services
		Matching grants
2	Access to finance	Access to credit
3	Business registration and tax	Business registration
		Tax policy and administration
4	Market access	Market linkages
		Export promotion and support
5	Innovation	Product innovation support

4. Results and discussion

4.1. Results

This section presents the results of in-depth interviews (IDI) and Focus Group Discussions (FGD). A summary of the interviews and research findings reveals nine main themes. Points (1) to (5) align with the categories used by the USAID Theory of Change, reviewed based on field conditions, while points (6) to (9) are the research findings.

(1) Business management

In this section, we interviewed the Head of the Traditional Batik Clothing SME Group and the Head of the E-commerce SME Group to understand business management and training assistance from partner companies:

The head of Traditional Batik Clothing SME Group explained:

“Most SMEs have received training in making batik clothes from partner companies and processing Indigofera seeds into natural batik dye paste. Partner companies also provide marketing support through managerial training for local and national exhibitions and strengthen entrepreneurial spirit through corporate CSR.”

The head of the E-commerce SME Group stated:

“Some SMEs, such as those in garments, leather, shoes, bags, children’s toys, T-shirts, and wigs, have entered the e-commerce market. However, some SMEs

face difficulties entering the e-commerce market and require support from the government and large companies to facilitate online market access. In conclusion, this remains a challenge as many SMEs have not received adequate training, guidance, and support from various parties.”

(2) Access to finance

The financial aspect was a significant discussion point among FGD participants, particularly concerning bank loan capital.

Head of Garment Industry SME Group revealed:

“SMEs need help to maximize loan capital for growth and development. Problems in disbursing loans from banks or obtaining short-term financing from banks have slowed SME growth. Therefore, SMEs need long-term solutions.”

Head of Leather Industry SME Group added:

“A small number of SMEs involved in online business collaborate with banks and use virtual features for faster transactions. Only about 20% of SMEs can access bank loans. Additionally, SMEs struggle to access financial assistance from the government due to high traffic on government websites. This section concludes that the government and banks face challenges in providing adequate support to SMEs, and recommendations are needed.”

(3) Business registration and taxation

In this section, we interviewed policymakers to obtain information on how SMEs register their businesses with the government and obtain industrial business licenses.

Head of the Jakarta Provincial Department of Industry, Trade, Cooperatives, and SMEs stated:

“Data at the Jakarta Provincial Government’s SME Department shows that all SMEs and their types are registered. About 79.12% have participated in marketing training, product innovation collaboration, and learning to obtain bank credit, but only 14.17% have trade licenses.”

The head of the Cooperative Sub-department added:

“Regarding bank interest rates, banks have provided low-interest rates of 4% per year; the government offers a final income tax rate of 0.5% and 0% for business turnover up to \$32,000. VAT rates are set at 1%–3%. The low taxes set by the government aim to stimulate SME growth and are not a challenge for them.”

(4) Market access

In this section, we discussed the market access of Jakarta SMEs to local, regional, and international markets.

The head of the Trade Sub-department explained:

“Some SMEs have strong local and regional marketing networks, access to e-commerce, and the ability to produce innovative products, branding, and licensing. However, most lack networks to access international markets.”

The head of the Industry Sub-department added:

“Most SMEs need mentors to use computer systems, market their products, and enter e-commerce. The weakness lies in market access.”

The head of the Children’s Toys Group revealed:

“In the past two years, the purchasing power for children’s toys has declined because the government has not reduced imports of foreign goods. This section concludes with challenges and recommendations, presenting future challenges for all stakeholders and actors.”

(5) Innovation

In this section, we interviewed informants about how SMEs innovate to adapt to challenges.

The head of the Traditional Culinary Food Group revealed:

“SMEs innovate when facing various difficulties. For example, the economy not yet recovering, difficulties in obtaining bank loans and government grants, and uneven CSR distribution have sparked creative ideas to develop our SMEs. An example of these creative ideas is that if a traditional food SME member lacks capital, we discuss helping with capital. Typically, we set aside 5% of sales profits to help them.”

The head of the Kitchen Spice and Ornamental Fish Group explained:

“We are assisted by partner companies to innovate. For instance, culinary SMEs such as kitchen spices are growing and exported to Germany, Japan, and Korea, while ornamental fish businesses are exported to Singapore and Malaysia.”

The head of the Leather Sector Group added:

“With the help of the Jakarta Provincial Government, leather jacket, bag, and shoe SMEs are exported to Malaysia and Brunei. Through an external collaboration approach, some industrial companies participate as SME partners. The establishment of a cooperative bank for SMEs to support member capital is discussed in another section.”

(6) Government policy

We discussed with FGD participants their responses to Law No. 20 of 2008, Regulation No. 11 of 2020, and Jakarta Governor Regulation No. 53 of 2021. They expressed the following opinions.

The head of the Computer Equipment and Chip Industry SME Group revealed:

“We found that some provisions in the law, government regulation, and governor regulation are counterproductive. For example, there are no technical guidelines regarding employee severance obligations. These regulations and technical guidelines for SMEs are very important to avoid protests from them or being considered in violation of payroll and severance regulations.”

The head of the T-shirt SME Group said:

“We have received many conveniences since the government issued permits and business ownership certificates for SMEs, helping us connect with banks.”

The head of the T-shirt SME Group added:

“SMEs view business permits as ‘capital’ and a great advantage because to move further and grow rapidly, we need permits and government support to enter international markets.”

(7) Collaboration

We interviewed the Head of the Family Income Improvement Business Curation Team, who actively develops SMEs in Jakarta Province.

He stated:

“We have formed a large group, Jakarta entrepreneur (Jakpreneur), a participatory event from the collaboration of SME groups with the government. SMEs showcase various types of culinary, fashion, and handicraft businesses at City Hall, and SME products are purchased by many customers. This activity will continue to be maximized in welcoming Jakarta to become a Global City.”

We interviewed three large companies present at the Jakpreneur event, and they explained:

“Some SMEs have long collaborated with large industrial companies, usually in the form of core plasma, franchises, subcontracting, supply chains, and business collaborations. For example, large industrial companies ask SMEs to produce dolls and toy cars. Batik garment SMEs have partnered with medical companies. This shows that some partnership roles have been effective. The challenge is to find partners for SMEs that have not yet collaborated, requiring efforts from large companies and local governments.”

(8) Innovative solutions to prevent SME collapse

This section focused on business solutions to prevent SMEs from collapsing. The interview and FGD results are as follows.

The head of the Jakarta Provincial Department of Industry, Trade, Cooperatives, and SMEs explained:

“SMEs must have strong local, regional, and international marketing networks, easy access to e-commerce, training, guidelines for online transactions and marketing, innovation and product management, branding, and licensing. Therefore, the government always supports their activities. We recognize that SMEs’ difficulties are in capital and bank interest relief, and banks require collateral in the form of land or house certificates.”

The head of the Automotive Accessories SME Group, representing other SME groups, said:

“We hope the government will implement policies that limit or shut down foreign e-commerce that does not accept local SME products. The government should also reduce retail imports from abroad and remind banks to ease conditions for SMEs. We have implemented capital relief solutions for SME members by establishing an SME Cooperative Bank (SCB). The procedures are easy, without collateral, and we hope for support from the government and large companies.”

(9) Establishment of SME Cooperative Bank

In this section, we addressed the complexity of banking procedures and the limited amount of loans given to SMEs. SME groups require strategic innovations, including establishing an SME Cooperative Bank (SCB).

The head of the Garment SME Group revealed:

“The rules and procedures of the cooperative bank we established are very flexible, with minimal interest rates, allowing SMEs to develop their business strategies.”

The head of the Leather Shoes SME Group stated:

“We launched this program in 2021. SCB was developed by SME members, emphasizing a sense of community. SCB’s capital comes from SME members and CSR from large industrial companies. SCB is managed professionally to

address SME members' financial difficulties. Large industrial companies have helped train SCB financial procedures and facilitate SME product marketing."

4.2. Discussion

4.2.1. Development and future challenges of the SME Cooperative Banks (SCB)

Due to the extensive support required in its development, this section presents findings from a critical study conducted during FGD sessions, highlighting the intentional relationships built by SMEs among members and SME groups to address their challenges. Establishing SCB presents future challenges that necessitate collaborative efforts from various stakeholders.

Two other provincial governments, such as West Java and East Java, are actively promoting the establishment of SME cooperative banks similar to community credit banks. The government is also developing local banks owned by regional government banks. The government has signed Memorandums of Understanding (MoU) with venture companies and 17 community banks offering minimal interest rates or administrative fees to facilitate the establishment of local banks supporting SMEs. Notably, the East Java People's Credit Bank (known as East Java SME Bank) is owned by the East Java Provincial Government and the East Java City Government. This SME bank obtained an operational license from Bank Indonesia under number 3/13/KEP.DGS/2001, dated 5 October 2001, began operations in early 2002.

Given the importance of this theme in the research, further investigation continued with field observations focused on SCB. Four SME group leaders acted as informants, providing insights into how SME members obtained loans and detailing the flow and procedures involved. During the SCB observation, the credit disbursement process for SMEs at SCB was documented, including information on the loan disbursement time.

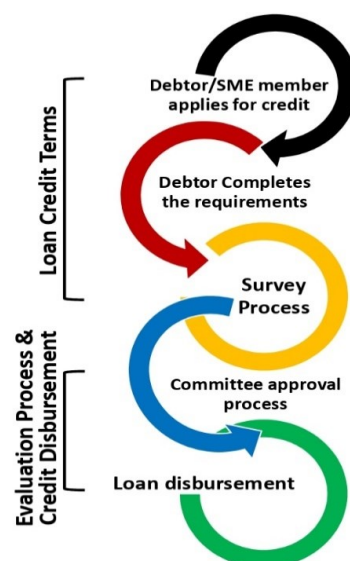


Figure 2. The SME credit loan process flow at SCB (Syahrian, 2019; Tempo.co, 2024).

Figure 2 illustrates the SME credit loan process flow at SCB, detailing the steps

in facilitating SME loans within the cooperative banking framework.

In the initial stage, SME members (debtors) apply for a credit loan at SCB by registering online or visiting the bank to fill out an application form. They must complete the requirements, including submitting photocopies of their ID cards, marriage certificates, and SME business financial statements. In the second stage, two survey officers visit the SME location, assess the debtor's financial condition, and verify the provided information. After completing the survey, the evaluation committee reviews the collected data and evaluates the loan application. This committee assesses the debtor's creditworthiness, repayment ability, credit history, and compliance with the requirements.

Once the committee approves the credit application, the final step is the loan disbursement. SCB arranges for the funds to be disbursed into the debtor's account, and the debtor receives the loan amount based on the agreed terms. After receiving the loan funds, the debtor makes repayments according to the predetermined schedule. The loan does not require collateral, as banking credit guarantees are only for non-SME businesses. Additionally, if SME members continue to experience losses, the SME Group Leader will report to the city government and partner companies to arrange for retraining for the affected SME members. In conclusion, this section highlights future challenges, especially for SMEs facing losses that may require special support and handling.

4.2.2. Collaborative governance and innovative financial solutions

In order to address the needs of SMEs in the study area, indicators from the Theory of Change were used as a framework, adjusted with additional categories tailored to local conditions. Based on USAID studies and the findings of this research, two critical categories need to be added: collaborative governance and the establishment of SME Cooperative Banks viewed as innovative strategies to enhance SME resilience (Cao and Yue, 2023).

Specifically, insights from Serbia and Romania provide valuable lessons for improving collaborative governance. Studies by Dand et al. (2024) and Guimaraes et al. (2021) explore collaborative governance structures among SMEs, emphasizing the benefits of SME managers joining clusters to foster a collaborative environment. These groups navigate complex dynamics involving SMEs, the government, and banks, illustrating the potential of partnerships to enhance SME capacity when aligned with shared values.

Furthermore, Albalushi and Naqsybandi (2022) examined factors influencing collaborative ecosystems, such as top management, organizational behavior, SME resources, government policies, customer dynamics, consultants, and external IT vendors. They advocate for flexible, dynamic platforms conducive to open collaboration (Yun and Liu, 2019).

In conclusion, integrating these insights into SME policies in Indonesia can foster a stronger collaborative ecosystem, leveraging governance structures and innovative financial solutions like SME Cooperative Banks to support sustainable SME development.

Regarding innovation, Al-Hanakta et al. (2023) describe innovative performance as fundamental to enhancing the competitive advantage of micro, small,

and medium enterprises (MSMEs). The revival of MSMEs depends on the interplay of these three types, including applying organizational strategies toward environmental sustainability and adopting eco-friendly innovations in processes and products. Stakeholders must anticipate the relative impact on business performance, necessitating targeted dual-purpose policy strategies by the government (Hermansyah et al., 2024), banks, and large companies through CSR efforts. Zhang and Wang (2023) identify shortcomings in China, where many SME assistance programs are misdirected and fail to reach the intended recipients. Collaboration among state and non-state actors shapes policy outcomes, directly involving stakeholders in decision-making (Samudra et al., 2024). Understanding how external factors from the government, banking, and large companies influence the future success of SMEs is crucial (Audretsch et al., 2023; Nobi et al., 2023).

This research highlights that the lack of face-to-face dialogue hinders collaborative governance between SMEs, the government, and banks, impeding mutual trust and investor ownership in SMEs. Additionally, there are insufficient regulations for jointly managing SMEs for mutual benefit. With support from the government and the Financial Services Authority, efforts to address these issues aim to improve SME access to bank loans through enhanced trust-building efforts. Banks must have more regulatory flexibility to support SME capital development. This collaboration can drive grassroots industries, covering more than 60% of the population, aided by digitalization and ongoing international marketing training. Government support is essential for further business development through digitalization and expanding marketing networks, requiring policy, legal, and regulatory updates to foster mutually beneficial relationships.

Finally, the collaborative process can be assessed by building trust, commitment to the process, mutual understanding, interim results, and facilitative leadership (Bianchi et al., 2021). Therefore, including commitment process items is essential to encourage the revival of SMEs (Agostini et al., 2019). In the context of innovative SME cooperative banks, internal collaboration within SME groups drives the initiative to establish these banks. This response addresses SMEs' challenges in accessing short-term financing and meeting stringent banking requirements. The establishment of SME Banks in two provinces has successfully managed the capitalization of its members, demonstrating their potential for further development across Indonesia.

Thus, the findings of this study complement existing theories, such as USAID's Theory of Change, which emphasizes collaborative partnerships among stakeholders, large companies, banks, and SMEs (**Table 2**). Universities are called to intervene by developing research that supports and enhances SMEs as the primary drivers of the local economy. This research provides comprehensive insights tailored to Indonesian conditions within the Theory of Change framework, offering practical insights for SME revival.

The contribution of this study to the Theory of Change lies in its practical application and adaptation to the Indonesian context, particularly in fostering collaborative governance and innovative financial solutions for SME resilience. The study underscores the importance of structured governance frameworks and innovative financial mechanisms by integrating insights from the USAID Theory of

Change, which emphasizes collaborative partnerships among stakeholders, including SMEs, government, and banking institutions.

Table 2. Theory of Change: SME development with seven categories (USAID, 2019).

No.	Category	Type of intervention
1	Business management	Training, consulting services, matching grants
2	Access to finance	Credit access
3	Business registration and taxation	Business registration, tax policy, and administration
4	Market access	Market linkages, export promotion, support
5	Innovation	Product innovation, innovation support
6	Collaboration	Internal collaboration (Among SMEs), external cooperation (government, banking, large companies)
7	Establishment of SME Cooperative Banks	Internal collaboration, government, and CSR support

Specifically, establishing SME Cooperative Banks (SCB) in two provinces is a testament to enhancing SME access to tailored financing, demonstrating potential scalability across Indonesia. This initiative aligns with the Theory of Change by promoting collaborative clusters and partnerships to navigate complex dynamics involving SMEs, government entities, and financial institutions. It highlights the role of regulatory flexibility in supporting innovative financial solutions that meet SMEs' evolving needs.

Moreover, the study contributes to the Theory of Change by emphasizing the crucial role of trust-building among SMEs, government, and financial institutions, which is essential for creating a conducive environment for SME growth. Recommendations for enhancing digital infrastructure and market linkage initiatives further align with the Theory of Change's principles of fostering sustainable SME development through improved access to markets and digital tools.

In essence, this study's contribution to the Theory of Change lies in its application of theoretical principles to practical interventions that support SME resilience and growth in Indonesia, thereby enriching and expanding the understanding and implementation of collaborative governance and financial innovation within the context of SME development.

5. Conclusion

Based on the findings and analysis, this study concludes that establishing SME Cooperative Banks (SCB) in two Indonesian provinces is a significant step toward enhancing SME access to financial resources. The SCBs provide tailored financial solutions and foster collaborative governance frameworks that align with the Theory of Change advocated by USAID. This theory emphasizes collaborative partnerships among SMEs, government agencies, and financial institutions in driving sustainable economic development.

The study's contribution to the Theory of Change lies in its practical application within the Indonesian context. By integrating insights from USAID's theory, which underscores the importance of structured governance and innovative financial mechanisms, the study demonstrates how SCBs can effectively address the financing

needs of SMEs. It highlights the role of regulatory flexibility and trust-building initiatives in creating an enabling environment for SME growth.

Moreover, the study recommends enhancing digital infrastructure and market linkages to support SME resilience and expansion. These recommendations are aligned with the Theory of Change's principles of promoting inclusive economic growth through collaborative partnerships and innovative solutions.

In conclusion, this study provides a nuanced understanding of how collaborative governance and innovative financial mechanisms, exemplified by the SCB model, can contribute to advancing the Theory of Change in supporting SME development in Indonesia. It underscores the importance of adapting global theories to local contexts to foster sustainable economic growth and resilience among SMEs.

Recommendation

Based on the study findings and its contribution to the Theory of Change, several recommendations can be proposed:

- **Enhancing collaborative governance:** Encourage the establishment of collaborative platforms involving SMEs, government bodies, financial institutions, and other stakeholders to strengthen governance frameworks. It could include regular dialogues, workshops, and joint decision-making processes to build trust and improve policy coherence.
- **Scaling SME Cooperative Banks (SCBs):** Expand the SCB model to other regions in Indonesia, leveraging lessons learned from successful implementations. This scaling should prioritize local adaptation and regulatory support to ensure sustainability and effectiveness.
- **Promoting digitalization:** Foster digital infrastructure development tailored to SME needs, such as digital financial services and market platforms. It includes enhancing digital literacy among SMEs and providing access to affordable digital tools and technologies.
- **Facilitating market access:** Support SMEs in accessing broader markets through export promotion initiatives, market linkages, and participation in international trade fairs. Strengthening market connections can enhance competitiveness and sustainability.
- **Innovative financing Solutions:** implementing innovative financial mechanisms tailored to SMEs, such as blended financial models and impact investments. The mechanisms should prioritize inclusivity, flexibility, and affordability to meet diverse financing needs.
- **Novelty contribution to Theory of Change:** Integration of the study's findings into the Theory of Change framework by emphasizing the role of SCBs and collaborative governance in fostering sustainable economic development. It includes advocating for global partnerships that adapt to local contexts, promoting resilience-building initiatives, and enhancing policy coherence in supporting SME growth.
- **Capacity building and training:** Develop targeted capacity-building programs for SMEs in financial management, digital skills, and sustainable business practices. These programs should be inclusive and accessible for women-led

and rural SMEs.

- **Policy advocacy:** Advocate for supportive policy frameworks at both national and local levels that incentivize SME growth, innovation, and resilience. It involves engaging policymakers, industry associations, and civil society to address regulatory barriers and promote a conducive business environment.

By implementing these recommendations, stakeholders can collectively advance Indonesia's Theory of Change principles, promoting inclusive economic growth and resilience among SMEs.

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