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The role of banks and local government in developing MSMEs for sustainability competitive advantage

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Abstract. This research aimed to examine the role of banking and local Government in developing MSMEs in Madura to enhance their competitive advantage for sustainability. Researchers used purposive sampling to collect samples from various MSMEs in the Pamekasan and Sumenep districts. This research was conducted in Sumenep and Pamekasan Regency with one hundred samples of MSME entrepreneurs, local Government, and the management of the local bank of Sumenep and Pamekasan Regency. The data was collected using interviews, field observations, questionnaires, and documentation. The data was analyzed using a mixed method with an exploratory design model. The results of this study indicated that banks significantly influence the development of MSMEs in the Pamekasan and Sumenep districts, with a positive regression coefficient of 0.417 and a significance test result of 0.000. Nevertheless, the local Government has an influence. Still, it is insignificant in developing MSMEs in the Pamekasan and Sumenep districts, with positive regression coefficients of 0.104 and a significance test result of 0.091. The findings of this research provided solutions to enhance the competitive advantage of MSMEs in Madura, ensuring their continued existence and sustainability. This included increasing MSME entrepreneurs' understanding of how to obtain accessible and appropriate capital for the smooth operation of their businesses and encouraging them to seek information on competitors, innovation, and other related issues.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are often considered influential instruments for a country's economy, especially in developing countries. This perception is not separate from the role of SMEs in absorbing a large amount of labour and their significant contribution to a country's Gross Domestic Product (GDP). MSMEs are small and medium-scale businesses in terms of asset value and number of employees. In Indonesia, according to Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, MSMEs are defined as productive economic activities carried out independently by individuals or business entities that are not subsidiaries; micro enterprises have a maximum net worth of IDR50,000,000 excluding land and building assets for business premises, or have annual sales of up to IDR300,000,000; The net worth of small businesses ranges from IDR50,000,000 to IDR500,000,000, excluding land and business premises, or having annual sales exceeding IDR300,000,000 to IDR2,500,000,000; medium-sized businesses have a net worth between IDR500,000,000 and IDR10,000,000,000, excluding land and business premises, or having annual sales exceeding IDR2,500,000,000 to IDR50,000,000,000 per year [1].

Indonesia, as a country with approximately 66 million MSMEs, which contribute significantly to the GDP, makes it necessary for MSMEs in Indonesia to be continuously protected and supported to maintain Indonesia's economic resilience [2]. Madura is a small part of Indonesia,

located in one of the provinces that contribute significantly to Indonesia's economy through the MSME sector, namely East Java. Despite being a relatively small region, numerous MSMEs are thriving in Madura. This can be proven by Madura's abundance of businesses and industries, ranging from home-based to factory industries. The diversity of MSMEs in Madura includes culinary, fashion, agribusiness, beauty, and automotive ventures the local community pursues. This diversity presents an opportunity for Madura to continue developing and advancing through the MSMEs sector. However, to achieve this, MSME actors cannot operate alone. They need support and protection from the Government and other stakeholders to ensure their businesses' smooth and sustainable operation.

The MSME development process in Madura indeed found many obstacles, both from internal and external factors. Obstacles that can be found in the field related to the development of MSMEs in Madura include limited access to financing, lack of knowledge about digital marketing, lack of business networks, and lack of infrastructure and other supporting facilities. Based on this background, this study discusses the role of banks and local governments in developing MSMEs in Madura to gain a competitive advantage in agility. The novelty of this research was that it was conducted using two independent variables, namely banks and local Government, and MSMEs were made the dependent variable. Previous studies typically focused on only one independent variable, such as banking or local Government alone. Another novelty is the geographical scope of the research, which covers not only one district but two districts representing the MSMEs in Madura. The results of this research are expected to provide solutions to the problems of MSMEs in Madura, improve the integrity of local governments and banks in helping the development of MSMEs in Madura, and give MSMEs in Madura a sustainable competitive advantage.

2. Method

The research method used in this study was mixed, combining qualitative and quantitative methods. The combination research method is an approach that integrates quantitative and qualitative data to create a new method for solving research problems using data from both sources [3]. The other definition states that mixed methods are a research approach that integrates quantitative and qualitative data, creating a new method to solve research problems using data from both sources [4]. The combination method used was the exploratory design model. In this mixed-method research approach, the researcher began by collecting and analyzing qualitative data first and then used that data to develop instruments or approaches for quantitative data collection [5]. Exploratory design aims to delve deeper into information and provide a foundation for further structured research [6]. Therefore, in this study, qualitative research was conducted initially, and from the findings, an instrument for quantitative research was developed to clarify the research results.

This research was conducted in Sumenep Regency and Pamekasan Regency. These locations were selected because Sumenep and Pamekasan have diverse MSMEs, including culinary, fashion, arts, and automotive businesses spread throughout their respective areas. The respondents for this study were MSME entrepreneurs, the local Government, and the bank's management in Sumenep and Pamekasan Regencies. Sample selection was completed using the snowball sampling technique, where the sample size was initially small and gradually increased over time. The snowball sampling method was used so that researchers could efficiently utilize resources and build trust with respondents. This method was also suitable for exploratory research models because it allowed researchers to reach relevant individuals and expand insights on the studied subject. With the presence of key informants, the sample size was expected to grow like a snowball. Essential information was obtained by utilizing personal and professional networks with UMKM actors, leveraging social media, and consulting directly with relevant parties such as banking management and regional heads.

The data collection technique in this research was carried out using several methods, including interviews, field observations, questionnaires, and documentation. Interviews were conducted to obtain primary data from respondents. In this case, semi-structured interviews were chosen to encourage respondents to be more open in their answers. Interviews were conducted with individuals who were considered to know and understand the issues in this study so that they could answer the researcher's questions. Next is field observation, which was aimed at understanding the actual conditions in the field. The questionnaire method was also used with creative economic actors to answer specific questions prepared in questionnaire format. In this study, the researcher also used documentation methods where data on sales and income generated by MSMEs in Sumenep and Pamekasan Regencies were collected.

The research employed a gradual qualitative-quantitative data analysis approach, starting with qualitative interviews. The interview results were then developed into instruments for the quantitative method. Subsequently, a questionnaire was prepared and distributed to respondents to assess the role of local banks and the Government in developing MSMEs in Madura. In the quantitative phase, data analysis was conducted using regression statistical tests. The following provides an overview or outline of the research design.

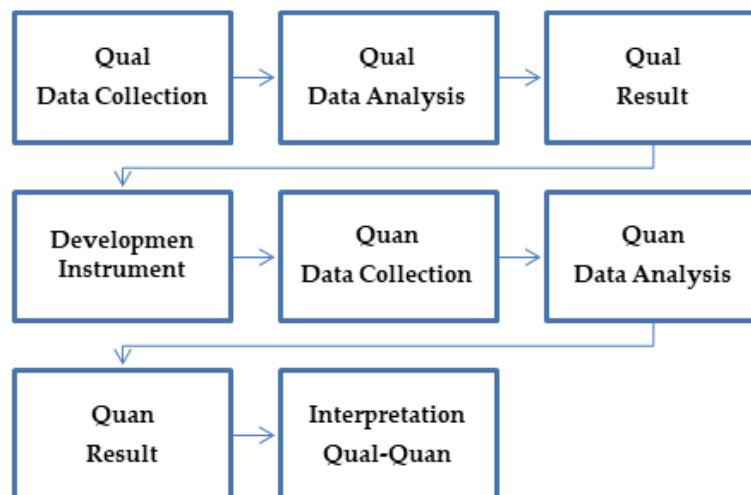


Figure 1. Research Design

3. Results and Discussion

3.1 Results

MSMEs in Madura have a crucial role in the local economy. Madura has various unique products that serve as the foundation for local MSMEs, such as batik, salt, handicrafts, and processed food products. Challenges and obstacles to overcome to develop the potential of MSMEs in Madura include difficulties in accessing capital, marketing or distributing products, and a lack of human resource knowledge. These obstacles should be promptly and effectively addressed so that MSMEs in Madura can continue to grow and thrive. Therefore, stakeholders, such as local Government, regional banks, and other relevant parties, must collaborate to overcome the challenges MSMEs face in Madura.

The efforts that have been made by the Pamekasan and Sumenep Regencies' Governments to develop MSMEs in their areas include providing training for MSMEs owners or prospective new entrepreneurs, assisting in promoting MSMEs products, facilitating the registration of trademarks and halal certification, organizing activities involving many MSMEs at once, and providing capital loans to MSMEs practitioners. These efforts demonstrate the Government's concern for sustainability and continuous growth of MSMEs. The local Government is not the only one

involved; banking institutions also play a role in developing MSMEs in Madura through the programs they offer. Banks provide capital loans to MSME actors with lower interest rates than usual. Banks actively collaborate with the Government to promote their products through large-scale activities involving many MSMEs. The author identified indicator variables from the brief interviews with local Government and bank representatives in Pamekasan and Sumenep Regencies. The indicators for each variable are explained in the Table 1.

Table 1. Operational Variable Definition

Variables	Definition	Indicators	Measurement
Bank	Banking is a financial institution whose primary activity is collecting funds from the public and channelling them back to the community to improve the economy and well-being of the people [7].	<ul style="list-style-type: none"> ▪ The product offered to support MSMEs ▪ Activities that support the development of MSMEs ▪ Services from the banking sector ▪ Security to obtain business capital. ▪ Trust from the community ▪ Ease in the process and access 	Likert Scale 1-5
Local Government	Local Government is the organizational unit with the authority to manage all local interests of a group residing in a region led by a regional head of Government [8].	<ul style="list-style-type: none"> ▪ Government financial assistance ▪ Structuring MSMEs by the Government ▪ Training for MSMEs owners ▪ Government assistance in developing MSMEs ▪ Socialization about business 	Likert Scale 1-5
MSMEs Development	The process is to develop the potential of MSMEs to survive and compete through their competitive advantages.	<ul style="list-style-type: none"> ▪ Production ▪ Marketing ▪ Distribution ▪ Sales ▪ Business development ▪ Economic and environmental conditions 	Likert Scale 1-5

The formulated hypotheses are as follows: H1 is Banking affects the development of MSMEs in Madura; H2 is Regional Government Affects the Development of MSMEs in. Data is collected by distributing questionnaires to Pamekasan and Sumenep Regency SME owners. The collected data is analyzed using SPSS (Statistical Product and Service Solution) to test the validity of hypotheses. The analysis tool used in this research is Multiple Linear Regression Analysis. The following is the equation for multiple linear regression in this study:

$$Y = \alpha + b_1.X_1 + b_2.X_2$$

Which means:

Y : MSMEs

α : Constanta

b_1, b_2 : Coefficient X_1, X_2

b_2

X_1 : Bank

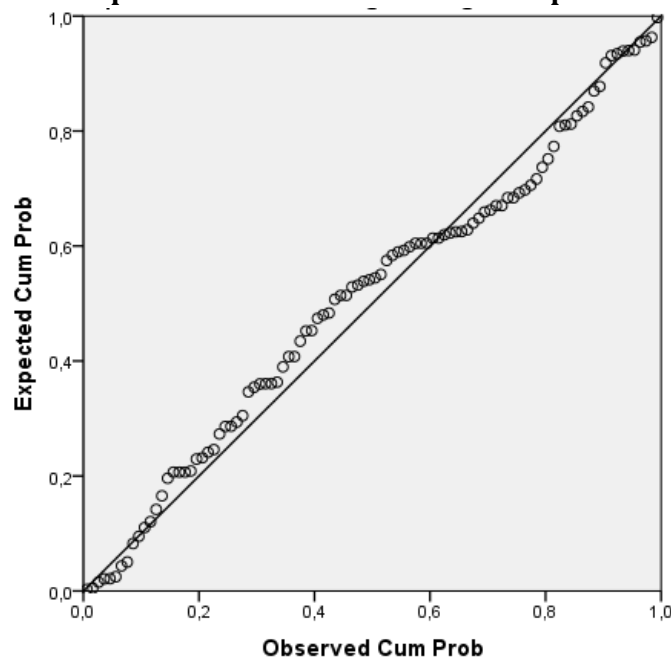
X_2 : Local Government

The normality test results indicate that the P-plot produces a diagonal line. Thus, it can be concluded that the pattern is typically distributed. In addition, the Asymp. Sig value obtained from the Kolmogorov-Smirnov method indicates a value of 0.146, where this number is more significant than 0.05. Thus, it can be said that the data is typically distributed. Then, a multicollinearity test is carried out to determine whether there is a correlation between independent variables in the regression model used. In the multicollinearity test, if the tolerance value is more significant than 0.10 and the VIF value is less than 10.00, it can be interpreted that there is no multicollinearity. Based on the tested data, a tolerance value of 0.489 and a VIF value of 2.046 are obtained, so it can be concluded that no multicollinearity or correlation between the research variables was found.

Table 2. Multicollinearity Test Results

		Coefficients ^a				Collinearity Statistics	
Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	
		B	Std. Error				Tolerance VIF
1	(Constant)	9.061	.217		7.447	.000	
	Bank	.417	.079	.553	5.283	.000	.489 2.046
	Local Government	.104	.061	.179	1.707	.091	.489 2.046

Normal P-Plot of Regression Standardized Residual
Dependent Variable: MSMEs Development

**Figure 2.** Normality Test Result

Then, there is a heteroscedasticity test, which aims to test whether, in the regression model, there is an inequality of variance from the residual of one observation to another. The results of the heteroscedasticity test of the scatterplot graph observed that the dots spread randomly and were scattered above and below the number 0 on the Y-axis. Based on the regression analysis results in Table 2, the multiple linear regression model equation obtained is as follows:

$$Y = \alpha + b_1.X_1 + b_2.X_2$$

$$Y = 9.061 + 0.417 X_1 + 0.104 X_2$$

From the multiple linear regression model, several conclusions can be drawn. Firstly, the constant value of 9.061 represents the intersection of the regression line with the Y-axis, indicating the development of MSMEs when all independent variables, namely banking (X1) and local Government (X2), are equal to zero. Therefore, the value of creative economic development is 9.061. Secondly, the banking variable (X1) has a positive regression coefficient of 0.417, meaning that if the banking variable increases by one unit, the MSMEs development variable increases by 0.417, assuming that other variables examined in this study remain constant. The third, local Government variables (X2), have a coefficient of 0.104. This indicates that financial inclusion positively influences the development of MSMEs. This means that for every one-unit increase in the local Government variable, the MSMEs development variable also increases by 0.104, assuming that other variables remain constant.

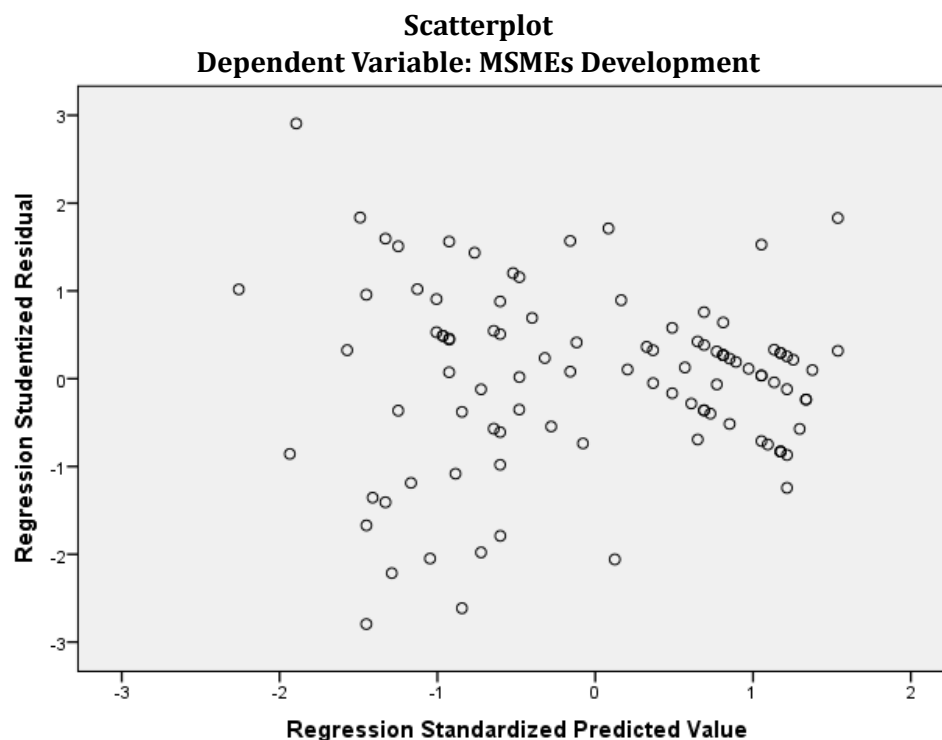


Figure 3. Heteroscedasticity Test Result

Based on the significance test results in Table 2, Bank (X1) has a significance level of 0.000, and local Government (X2) has a significance level of 0.091. If the significance level is less than 0.05, the variable is considered to have a significant influence, and if the significance level is

greater than 0.05, the variable is considered to have no significant influence. Based on this reference, it can be concluded that Bank (X1) significantly influences the development of MSMEs (Y), while the local Government (X2) does not significantly influence the development of MSMEs (Y) in Madura.

3.2 Discussion

Based on the analysis conducted, it has been found that the banking sector significantly influences the development of MSMEs in Madura. Many MSMEs in Madura have utilized the products offered by banks to expand their businesses, such as low-interest business credit programs, business mentoring by banks, and other programs offered by banks. Banking products and services are highly beneficial in the MSMEs development process as they can help provide additional capital to those in need. Additionally, through bank guidance, MSMEs can acquire new knowledge and skills to develop their businesses further. Based on interviews conducted with MSME owners, it is known that these owners utilize banking products and services because they can fulfil the needs of their businesses and because the services are easily accessible and available. Banks are also trusted by these business owners as a safe place to obtain capital, compared to borrowing from loan sharks.

Furthermore, the local Government has a role in developing MSMEs in Madura. Based on research findings, it is mentioned that the Government also has an influence on MSMEs development in Madura, although its impact is not significant. Nevertheless, the local Government has made efforts for MSME development, such as providing capital assistance to MSME owners, training for MSME owners, and MSME mentoring by the local Government. Based on interviews conducted with MSME owners, many of them have not had the opportunity to receive capital, training, and mentoring from the Government due to the lack of information disseminated to MSME owners. Based on the results of interviews with several MSMEs, it was found that there is a lack of socialization or dissemination of information regarding Government programs and policies to MSMEs. Many small business owners are unaware of the assistance, training, or incentives provided by the Government, which means they do not utilize them optimally.

Additionally, the programs and policies created by the Government are often general and do not align with the specific needs of MSMEs in the field. Without a deep understanding of the challenges and needs faced by small business owners, Government interventions become less relevant and ineffective in supporting MSME development. MSME development often requires collaboration between the Government, private sector, and financial institutions. If the Government cannot build effective partnerships, MSMEs will find gaining access to capital, training, and broader market opportunities challenging. These factors contribute to the Government's role not significantly impacting the development of MSMEs in Sumenep and Pamekasan Regencies. This research finding was supported by previous studies, which indicate that local Government policies often have a limited impact on MSME development [9]. This is due to issues in implementation, communication, and relevance [10]. Studies from Zimbabwe and other African countries also show that although there are policies to support MSMEs, their impact is suboptimal because of inadequate information dissemination and a lack of alignment with the specific needs of MSMEs [11]. Therefore, the Government needs to promote further awareness regarding the programs implemented to support the development of MSMEs [12].

The fact that many MSMEs owners have utilized banking products and services to develop their businesses proves they have a good understanding and easy access to financial institutions. Through the benefits that MSMEs owners can obtain from the products and services offered by financial institutions, it is hoped that MSMEs can enhance their competitive advantage to survive and continue to grow. MSME owners should also actively seek information related to Government programs that can assist them in improving the competitive advantage of their products or

services. This is necessary so that MSME owners have equal opportunities to access capital, training, and support from local governments.

4. Conclusion

The research findings indicated that hypothesis 1 was accepted, showing that the role of banking influences the development of MSMEs. MSME owners felt the impact of banks as they provide easy access to loans with low interest rates and good services. Meanwhile, hypothesis 2 was rejected, indicating that the Government's role has an insignificant influence on MSME development. This was due to several reasons, such as the lack of socialization, inadequate information dissemination, and Government programs and policies that do not align with the specific needs of MSMEs. Based on the research findings, the follow-up actions for the banking sector should focus not only on improving performance but also on innovating products and services tailored to MSME needs. Banks can offer financial training programs to enhance MSME financial literacy and provide technical support to manage their finances better. Meanwhile, the Government should develop an effective communication system to ensure that information about MSME-related programs reaches its target. Engaging MSMEs in program planning and evaluation will enhance policy relevance and impact. Building networks with the Government, banking sector, and business communities is crucial for MSMEs. They should embrace digital technology, like e-commerce platforms, and continuously improve product quality to remain competitive. Active participation in training, workshops, or business forums will help MSMEs identify new opportunities and expand their business networks, allowing them to grow and compete more effectively.

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