

## **MSME Financial Transformation: The Vital Role of Banking in Innovation and Service Provision**

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### **Abstract**

The purpose of this research is to analyze the vital role of banking in supporting the financial transformation of MSMEs through financial service innovation in Jambi City and to identify and evaluate the impact of innovative financial services provided by banks on the growth and development of MSMEs in the process of financial transformation in Jambi City. This study employs qualitative research methods and utilizes data collection techniques such as in-depth interviews, participatory observations, and content analysis to obtain a comprehensive understanding of the research topic. The findings indicate that banking plays a crucial role in facilitating MSMEs' access to financial services essential for business growth. Banking support, particularly through financial service innovation, is the key to MSME transformation. By adopting new technologies and financial solutions, MSMEs can manage their finances more efficiently and optimize business growth. The study also highlights the importance of financial education for MSMEs. Banks can act as knowledge providers, offering insights into effective financial management, enabling MSMEs to become more competitive in the market. The financial transformation of MSMEs requires strong collaboration between banks, MSMEs, and the government to create an inclusive and sustainable financial ecosystem.

**Keywords:** finance, MSMEs, banking, innovation, services.

### **INTRODUCTION**

Economic development in Indonesia has shown a positive trend in recent years. With stable economic growth, Indonesia has managed to attract foreign investment and expand market share in various industrial sectors (Utama & Efrina, 2023). Strong economic growth is also supported by progressive government policies in encouraging investment and infrastructure development, which provides a major boost to the country's economic growth (DS Innovate, 2023). One of the sectors that is very developed in Indonesia is the small, micro and medium business sector (UMKM). The government needs to continue to make efforts to improve the distribution of wealth and infrastructure development throughout the country so that economic growth can be felt equally by all levels of society (Lestari & Juniariani, 2022).

Micro, Small and Medium Enterprises (MSMEs) in Indonesia have experienced a significant increase in recent years (Sarmiati et al., 2022). Based on various supportive government policies and technological developments that facilitate market access and product distribution, MSMEs have become one of the mainstay sectors in Indonesia's economy (Sindhvani et al., 2023). Various training and mentoring programs organized by the government and non-governmental institutions also help MSMEs to improve the quality and competitiveness of their products. One of the important factors in the development of MSMEs

in Indonesia is the adoption of digital technology. With more equitable and affordable internet access in various regions in Indonesia, MSMEs can take advantage of digital technology to expand market reach, improve operational efficiency, and increase product competitiveness. In addition, e-commerce platforms and local marketplaces also provide opportunities for MSMEs to market their products online more widely. However, there are still various obstacles faced by MSMEs in Indonesia, such as limited access to capital, lack of knowledge about business management, and increasingly fierce competition. Therefore, support from the government and various related parties is urgently needed to continue to support the growth and development of MSMEs in Indonesia so that they can continue to compete in an increasingly competitive market (Rahayu et al., 2023).

In Indonesia, the development of capital and banking has experienced rapid growth in recent decades (Nur & Utama, 2023). One of the main factors influencing this development is government policies that support the growth of the financial sector. Since the enactment of economic reforms in 1998, the government has taken various steps to improve the accessibility and sustainability of capital and banking in Indonesia. Stable economic growth also boosts capital and banking development in Indonesia (Galetti et al., 2022). The high level of economic growth opens up opportunities for financial institutions to increase credit distribution to the community and the business sector. It also encourages investors to invest their capital in Indonesia's financial sector, which in turn strengthens the country's capital system. Technological developments also play an important role in the transformation of capital and banking in Indonesia. Financial technology or often called fintech has made financial accessibility possible for people who were previously difficult to obtain banking services. Innovations such as mobile banking, e-wallets, and other digital banking services have expanded the reach of capital and banking in Indonesia. Despite challenges such as the need for stricter regulations and consumer protection, capital and banking developments in Indonesia continue to show a positive trend. With government support, stable economic growth, and technological innovation, Indonesia's financial sector is believed to continue to grow and provide wider benefits to society (Li et al., 2020).

Banking and MSMEs in Indonesia have a very important role in supporting the country's economic growth (Engwa et al., 2021). Banking is one of the financial institutions that provides various financial services, including financing to MSMEs. With financing from banks, MSMEs can develop their businesses, increase production, and expand the market. The role of banks in providing financing to MSMEs can also help in increasing the competitiveness of MSMEs in an increasingly competitive market. With access to financing, MSMEs can innovate, improve product quality, and expand their business more widely. This will help MSMEs to compete with large companies and increase their contribution to the country's economy. In addition, the relationship between banks and MSMEs can also strengthen financial inclusion in Indonesia. With banking access, MSMEs can more easily access various financial services such as savings, credit, and insurance. This will also help MSMEs in managing their finances better and building financial stability for long-term business growth. Overall, the synergy between banks and MSMEs in Indonesia has a great positive impact on economic growth. Banking as a financial institution has a crucial role in providing financial support to MSMEs, which is one of the main pillars in Indonesia's economic structure. With good cooperation between the two parties, it is hoped that the growth of MSMEs and Indonesia's economy as a whole can increase and be sustainable (Jamid et al., 2022).

Capital is one of the main problems often faced by banks and MSMEs in Indonesia (Azhari Hutabarat et al., 2022). Banks often experience constraints in their capital due to high operational costs. The process of collecting funds from customers carried out by banks requires a lot of costs, such as employee costs, infrastructure, and technology. Thus, banks

often have difficulty in maintaining the financial health ratio set by banking supervisory agencies (Utama & Suryani, 2023). MSMEs also face similar challenges in terms of capital. It is often difficult for MSMEs to get access to financing from financial institutions due to the lack of collateral owned by MSMEs. Many MSMEs only rely on capital from their internal businesses or loans from loan sharks with high interest rates (Budi Utama, 2023). This makes it difficult for MSMEs to develop and compete in an increasingly competitive market. In addition, the problem of banking capital and MSMEs in Indonesia is also influenced by economic uncertainty and inconsistent government policies. Fluctuations in economic conditions often make banks reluctant to provide greater financing to MSMEs (Kabil et al., 2021), while ever-changing policies also have a negative impact on investor confidence in the banking industry and MSMEs. The low financial literacy in the community is also one of the factors that make capital problems more complex (A. U. Daud et al., 2023). Many business actors, especially MSMEs, do not understand the importance of good financial management and strategies to manage capital effectively. As a result, many MSMEs fail to manage their capital properly and find it difficult to develop sustainably. More intensive education and training efforts are needed so that business actors can better overcome this capital problem (Utama & Suryani, 2023).

The development of Micro, Small, and Medium Enterprises (MSMEs) in Jambi City continues to show a positive trend in recent years. With the support of the government through various programs and policies that support the growth of MSMEs, this sector is increasingly becoming the economic backbone of the community in Jambi City. Many MSME actors in Jambi City have now applied innovation and technology in their businesses, so that they are able to compete in an increasingly competitive market. Increasing market access through digital platforms also contributes to the development of MSMEs in Jambi City. With e-commerce and other digital facilities, MSMEs in Jambi City can expand their market reach outside the region and even internationally. The Jambi City Government also continues to provide support in terms of training and mentoring to MSME actors so that they are increasingly able to develop their businesses in a sustainable manner. All of these things make MSMEs in Jambi City increasingly develop and make a positive contribution to local economic growth.

Banking in Jambi City provides a significant boost for Micro, Small, and Medium Enterprises (MSMEs) to grow (Engwa et al., 2021). Through various programs and facilities provided, MSME actors in Jambi City can access low-interest loans, as well as various other financial services to support their business growth. In addition, banks in Jambi City are also actively providing training and assistance to MSME owners so that they can improve the quality and competitiveness of their products. In addition, banking in Jambi City also provides encouragement for MSMEs through the opening of wider market access. With various partnership programs and networks built by the Bank, MSMEs in Jambi City can expand their market share to the national and international markets. With this encouragement, MSMEs in Jambi City have a greater opportunity to develop and compete in an increasingly competitive market. Specifically, based on the researcher's initial observations on MSMEs in Jambi City, there are several challenges and obstacles in the banking business for innovation and service provision in order to encourage MSME finance, as follows: Lack of access to modern and innovative financial services for MSMEs. The inability of MSMEs to understand and utilize new and innovative financial technologies. The limitations of MSMEs in obtaining funding to develop product or service innovations. The need for assistance and education for MSMEs in using the new financial services offered. High fees or complicated requirements to get financial services from banks. Lack of credit schemes that suit the needs of MSMEs for financial innovation and transformation. The low level of financial literacy

among MSMEs makes it difficult for them to take advantage of innovative financial services. There has been no strong cooperation or collaboration between banks and MSMEs to develop financial services that suit their needs.

Based on the explanation in the introduction, the researcher is interested in further making a study entitled "MSME Financial Transformation: The Vital Role of Banking in Innovation and Service Provision" with the following problem formulation: What is the vital role of banking in supporting the financial transformation of MSMEs through financial service innovation in Jambi City? What is the impact of the provision of innovative financial services by banks on the growth and development of MSMEs in financial transformation in Jambi City?

## **METHOD**

This study uses qualitative research methods. The qualitative research method is an in-depth approach to understanding social phenomena by collecting non-numerical data from participants in a natural context (Moleong, 2020). This method is often used in social and human behavior research to unearth a deep understanding of patterns, meanings, and interactions within society. One of the main characteristics of qualitative research methods is their flexibility, which allows researchers to tailor research approaches and questions according to developments occurring in the field. This study uses data collection techniques such as in-depth interviews, participatory observations, and content analysis to obtain a comprehensive picture of the research topic. The process of data analysis in qualitative research methods involves in-depth steps to extract meaning from the collected data. The researcher uses an inductive approach to identify patterns, themes, and relationships that arise from the qualitative data. Qualitative analysis can be done manually using coding techniques or with the help of special software designed for qualitative data analysis (Harahap, 2021).

The purpose of qualitative data analysis is to produce findings that can be interpreted and applied in a broader context. The main advantage of qualitative research methods is their ability to provide an in-depth understanding of complex and multifaceted social phenomena. With a close approach to participants and natural contexts, qualitative research is able to uncover diverse perspectives and complexities that are not quantitatively measured. This method also allows researchers to explore research topics in a more flexible and in-depth way, making it possible to draw more comprehensive and relevant conclusions for the development of theory and practical applications. The 5 basic things of qualitative research are as follows: Define clear qualitative research objectives. Choosing the right research method according to the research objectives. Collect data through in-depth interviews, observations, or document analysis. Analyze data deeply and holistically to generate deep insights. Draw relevant conclusions or findings and be able to contribute to knowledge in the field

The limitation or scope of this study is that the scope of this research includes an in-depth analysis of the role of banking institutions in encouraging innovation among Micro, Small, and Medium Enterprises (MSMEs) in Jambi City. The research will involve case studies on how banks and service levels realize innovation and create services that suit the needs of MSMEs. Factors such as internal banking policies, marketing strategies, and technology implementation will be the main focus in the scope of this research. Using survey methods to collect data from MSMEs and related banks. - Interviews with MSME owners, bank managers, and financial experts in Jambi City to get different perspectives.

Qualitative data analysis techniques are used to provide for an in-depth understanding of how banking affects the financial transformation of MSMEs (Fadli, 2021). One technique that can be used is thematic analysis, where qualitative data from interviews with relevant stakeholders such as MSME actors and banks can identify thematic patterns that emerge

related to innovation and financial services. In addition, qualitative data analysis techniques of narrative analysis are also used to explore the evolving narratives around the role of banking in the financial transformation of MSMEs. With this approach, researchers can explore stories or direct experiences from business actors and banks to understand the difficulties, challenges, and opportunities that arise in the process of MSME financial transformation. Analyze survey data and interview results to identify patterns and trends.

## **RESULT AND DISCUSSION**

The vital role of banking in supporting the financial transformation of MSMEs through financial service innovation in Jambi City obtained the following results: Facilitating financial access: Banks can play a vital role in supporting the financial transformation of MSMEs in Jambi City by providing innovative and accessible financial services. Through services such as micro business loans, MSMEs can obtain capital to develop their businesses without being constrained by complicated requirements. Encouraging financial inclusion: By providing inclusive financial services, banks can help MSMEs in Jambi City to have wider access to the financial services they need. For example, by providing digital banking services that make it easier for MSMEs to make transactions online, without the need to go to a branch office. Providing assistance and education: Banks can also play a role in providing assistance and education related to finance to MSMEs in Jambi City. This can help MSMEs to better understand good financial management, so that they can manage their businesses more efficiently and sustainably.

Banking plays a vital role in supporting the financial transformation of MSMEs in Jambi City through financial service innovation. One of the most important roles is to provide easier and more affordable financial access for MSMEs. With innovative banking services, MSMEs can access loans, payment services, and financial management more efficiently. In addition, banks also play a role as a channel of funds that can help MSMEs to develop and expand their businesses. With financial support from banks, MSMEs can invest in product development, market expansion, or service quality improvement (Kotler & Keller, 2021). Banking can also provide assistance and better understanding of financial management for MSMEs. Through financial training and consulting programs, MSMEs can learn about cash management, financial planning, and risk management strategies that will help them manage their businesses better (Rakshit et al., 2022). In addition, financial service innovations offered by banks can also help MSMEs in expanding market access and increasing competitiveness. With the existence of digital payment services, e-commerce systems, or marketplace platforms provided by banks (I. Daud et al., 2022), MSMEs can sell their products more widely and gain new customers outside the local area. Finally, banking can also act as a bridge between MSMEs and investors and the capital market. With the connections and networks owned by banks, MSMEs can more easily access capital from investors or conduct initial stock offerings to support their business growth. Thus, the vital role of banking in supporting the financial transformation of MSMEs through financial service innovation in Jambi City is very important and has a great impact on local economic development.

The provision of innovative financial services by banks has significantly improved accessibility for MSMEs in Jambi City. By offering a broader range of financial products such as business credit, insurance, and investment opportunities, banks empower MSMEs to access essential resources for business growth. This enhanced access enables entrepreneurs to better manage their finances and invest in the development of their businesses, fostering sustainable progress in the local economy. In addition to improved accessibility, innovation in financial services has led to more flexible capital provision for MSMEs. Banks now offer tailored financial solutions, including financing options with competitive interest rates, flexible terms,

and simpler conditions. These advancements address the common capital constraints faced by MSMEs, providing them with the financial support needed to expand their operations and overcome growth barriers effectively. Moreover, the adoption of technology in financial services has improved the operational efficiency of MSMEs in Jambi City. Digital tools and platforms allow these businesses to manage their finances more effectively, reducing administrative burdens and financial complexities. By leveraging these innovations, MSMEs can concentrate on strategic growth initiatives and enhance their competitive edge in the market.

Innovative financial services provided by banks have had a significant impact on the growth and development of Micro, Small, and Medium Enterprises (MSMEs) in Jambi City. First, with innovative financial services, MSMEs in Jambi City have easier and faster access to various financial products and services. This allows MSMEs to conduct business transactions more efficiently and effectively. The provision of innovative financial services has also helped MSMEs in increasing access to business capital. With a flexible and easily accessible choice of loan products, MSMEs in Jambi City can develop their businesses better and expand their market reach. This has a positive impact on the growth of MSME businesses and ultimately, on the overall economic growth of Jambi City.

innovative financial services also allow MSMEs in Jambi City to better diversify their businesses. With easier access to investment and insurance products, MSMEs can protect their businesses from risks and expand their revenue potential. This provides an opportunity for MSMEs to develop more competitively and sustainably in an increasingly global market. In addition, the provision of innovative financial services also provides a platform for financial education to MSME owners in Jambi City. With more accessible information on financial management and risk management, MSMEs can improve the quality of their operations and increase their competitiveness in the market. It also helps create a healthier and more productive business environment in Jambi City. Finally, the impact of innovative financial services provided by banks on the growth and development of MSMEs in Jambi City is also reflected in the improvement of community welfare. With MSME businesses growing rapidly and being able to provide jobs for local residents, the local economy can grow evenly and reduce social disparities. In conclusion, through the provision of innovative financial services, banks have played a role in financial transformation that provides broad benefits for economic growth and community welfare in Jambi City.

## CONCLUSION

This research shows that banks have a vital role in facilitating MSMEs' access to various financial services needed for their business growth. With banking support, MSMEs can access credit, investment, and other financial solutions that help improve their operations and business scale. One of the main findings in this study is that innovation in financial services is the key to supporting the transformation of MSMEs. Banks that are able to understand the needs and challenges faced by MSMEs can create more appropriate and effective services. With the adoption of new technology and financial solutions, MSMEs can be more efficient in managing their finances and optimizing business growth. In addition, this study also highlights the importance of financial education for MSMEs. Banking as a financial institution can act as a resource person who provides understanding and knowledge about good financial management to MSMEs. With a better understanding of the importance of financial planning and investment, MSMEs can better manage their finances and improve their competitiveness in the market. Overall, the financial transformation of MSMEs requires strong cooperation between banks, MSMEs, and the government to create an inclusive and sustainable financial ecosystem. Thus, growth opportunities and opportunities for MSMEs to

develop can be realized through the vital role of banking in innovation and the provision of financial services.

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