

Strategies for Upgrading MSMEs Through the Optimization of KUR Financing Utilization at Bank Syariah Indonesia in the Bogor Area

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Abstract

One of the fundamental problems faced by MSMEs is limited capital. Although MSMEs may have received financing, many still encounter obstacles in elevating their business category. Among these factors are financial literacy and financial inclusion. Therefore, in this study, the data were collected through questionnaires and interviews with 113 MSMEs that have received KUR financing from BSI in the Bogor Area, using purposive sampling. The analytical methods used in this study include both qualitative and quantitative descriptive analysis. This includes classical assumption tests, regression model estimation, and hypothesis testing (t-test). Strategy development uses the Internal Factor Evaluation (IFE) and External Factor Evaluation (EFE) matrices, SWOT analysis and QSPM. The QSPM analysis identifies three top-priority strategies that most significantly support MSMEs in upgrading their business class after receiving KUR financing from BSI in the Bogor Area: (1) enhancing financial inclusion by providing easier access to banking services, both savings and financing. (2) improving the reputation and role of KUR in assisting unbankable MSMEs to become bankable and move up in business class. (3) increasing financial literacy among customers to encourage the use of BSI bank accounts for transactions, including digital transactions.

Keywords: Upgrading MSMEs, Optimization of KUR, Financing Utilization, Bank Syariah Indonesia

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are universally recognized as a key driver of economic growth, employment generation, and income distribution in both developed and developing economies. In developing countries, MSMEs play a particularly strategic role in mitigating regional inequality by absorbing labor and stimulating local economic activities, especially in areas that are less integrated into urban-centered development (Beck & Demirgüç-Kunt, 2019; OECD, 2017). In Indonesia, MSMEs account for more than 60 percent of gross domestic product and absorb over 90 percent of the national workforce, underscoring their critical contribution to economic resilience and inclusive growth (World Bank, 2020). Despite their substantial role, MSMEs continue to face structural constraints that hinder their sustainability and growth. Limited access to capital remains one of the most persistent

challenges, particularly for small-scale enterprises with low asset ownership and weak financial records (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2017). In response, the Indonesian government has introduced the People's Business Credit (Kredit Usaha Rakyat – KUR) program as a flagship policy instrument to improve MSMEs' access to formal financing, including through Islamic banking institutions. Islamic banks, such as Bank Syariah Indonesia (BSI), are increasingly positioned as strategic intermediaries in promoting inclusive finance due to their risk-sharing principles and strong alignment with MSME characteristics (Abedifar et al., 2016). However, access to financing alone does not automatically translate into improved business performance or upward mobility among MSMEs. Empirical evidence suggests that many MSMEs receiving credit remain trapped in a low-productivity equilibrium, unable to scale up or move to a higher business class (Banerjee & Duflo, 2014; McKenzie & Woodruff, 2017). This condition highlights the importance of complementary factors, particularly financial literacy and financial inclusion, in enhancing the effective utilization of financing facilities. Financial literacy enables entrepreneurs to make informed financial decisions, manage cash flows efficiently, and allocate capital productively, while financial inclusion facilitates sustained engagement with formal financial services (Grohmann, Klühs, & Menkhoff, 2018; Morgan & Trinh, 2019). In the context of Bogor City, data from the Central Statistics Agency indicate that wholesale and retail trade, along with manufacturing, consistently contribute more than 30 percent of the city's Gross Regional Domestic Product (GRDP). As of June 2025, a total of 2,260 MSMEs in the wholesale and retail trade sector have received KUR financing through the BSI Bogor Area, all classified as current (collectibility 1). While this reflects successful credit distribution, a critical challenge emerges after financing is obtained—namely, the limited capacity of MSMEs to improve performance and transition to a higher business class. This issue reinforces the need for a strategic approach that integrates financial capability development with financing optimization.

Previous studies on KUR financing predominantly employ quantitative approaches to examine its impact on MSME performance, focusing on financial outcomes such as revenue growth or profitability (Septiani & Wuryani, 2020; Puspitasari & Astrini, 2021). Although these studies provide valuable empirical insights, they largely overlook strategic dimensions related to sustainable MSME upgrading. Moreover, limited attention has been given to the role of Islamic banking-based KUR as a strategic policy instrument rather than merely a financing mechanism. To address these gaps, this study positions KUR financing not only as a source of capital but also as a strategic lever for MSME upgrading within the Islamic banking framework. This research adopts an integrated strategic analysis approach by employing the Internal Factor Evaluation (IFE) Matrix and External Factor Evaluation (EFE) Matrix to identify internal strengths and weaknesses as well as external opportunities and threats faced by MSMEs receiving KUR. The organizational position is then mapped using the Internal-External (IE) Matrix, and priority strategies are formulated through the Quantitative Strategic Planning Matrix (QSPM). Accordingly, this study aims to: (1) analyze the influence of financial literacy and financial inclusion on MSME business performance as an indicator of readiness for business upgrading; and (2) formulate strategic recommendations for enhancing

MSME upgrading through the optimization of KUR financing provided by Bank Syariah Indonesia (BSI) in the Bogor Area. By integrating financial and strategic perspectives, this study contributes to the literature on MSME development and offers policy-relevant insights for strengthening the role of Islamic banking in inclusive and sustainable economic growth.

METHODOLOGY

This study uses two data sources: primary and secondary data. Primary data were obtained from field observations, questionnaires, and in *-depth interviews* with respondents. The data obtained were qualitative and quantitative. Secondary data used in this study included literature studies to obtain relevant theories, data from the Bogor City Cooperatives and MSMEs Office, data from Bank Indonesia and the Financial Services Authority (OJK), and the Bogor City Statistics Agency (BPS). Literature in the form of scientific articles, research journals, and research theses were also used to support this research. In this study, data collection was conducted through a sample questionnaire distributed to 113 KUR customers. To identify appropriate alternative strategies, the researchers also conducted in-depth interviews to solicit the opinions of relevant experts, including banking practitioners, academics, and KUR customers with monthly turnovers of <100 million and >100 million.

Location and Time of Research

This study, "Strategies for Improving the Class of MSMEs by Optimizing the Utilization of KUR Financing at Bank Syariah Indonesia in the Bogor Area," was conducted in Bogor City and Regency. The study was scheduled for June 2025 to October 2025.

Population and Sample

This study uses a sample from the population. The sampling method used in this study is *non-probability sampling*, in this method each member of the population does not have the same chance of being sampled, while the sampling technique used is *purposive sampling*.

Based on the research objectives, the research data collection process was carried out through the distribution of questionnaires by sampling. The population of this study was MSMEs in the BSI Bogor Area who had received KUR financing with the Wholesale and Retail Trade Economic sector and had a collectibility of 1 (current). Determination of the number of MSME respondents who had received KUR financing used a sample size formula based on the percentage according to Yount BSI. Based on data from Bank Syariah Indonesia Bogor Area, the population of MSMEs who received KUR financing with KUR with the Wholesale and Retail Trade Economic sector and had a collectibility of 1 (current) amounted to 2,260, so if referring to the table above, the sample size obtained was 5% of 2,260, namely 113 samples for MSME respondents in this study. The Bogor area includes BSI located in Bogor City and Regency. In order to find the right alternative strategy for developing *online marketing*, researchers also conducted in-depth interviews to ask for opinions from 3 experts/specialists relevant to this research, namely 2 experts from banking and 1 expert from academia.

Method of collecting data

The quantitative data collection method was conducted by distributing an *online questionnaire* via *Google Forms* to respondents in the city and regency of Bogor. The questionnaire was based on a prepared list of questions related to three variables: financial literacy, financial inclusion, and business performance. The measurement scale for this research variable used a *forced-choice Likert scale* according to Oei's (2010) theory: 1 = strongly disagree, 2 = disagree, 3 = agree, and 4 = strongly agree.

To obtain qualitative data, an *in-depth interview* and a respondent survey will be conducted. Respondents who are experts are individuals who understand the problems, decision-making and the right information to share. In this study, the number of experts or respondents determined is 3 people. Data from interviews with MSME business actors is intended to obtain input regarding the current condition of MSMEs, the results then become part of the analysis of internal and external factors with *Internal Factor Evaluation* (IFE) and *EFE External Factor Evaluation* (EFE) , SWOT to obtain several alternative strategies that are most appropriate/ dominant according to their priority scale and QSPM for selecting the best alternative and decision-making to choose what strategy is most appropriate to be used by the company.

Data Processing and Analysis Methods

This type of research consists of qualitative and quantitative data. Both types of data are then processed using several analytical tools tailored to the research objectives, with the following steps:

1. In the first stage of the research, the number of samples used is 113 respondents. The results of the statistical test of this regression model are used to answer the hypothesis about the influence of Financial Literacy, Financial Inclusion as factors that play a role in improving the Business Performance of MSMEs that have received KUR financing at Bank BSI Bogor Area. Statistical tests in this study include: Validity test, reliability analysis test, multiple linear regression analysis, simultaneous significance test (F test), and partial significance test (t test) and determination coefficient test (R^2). The results of the analysis in the first stage will be an important part of the recommendation for selecting a priority scale based on the criteria that will be determined as part of several alternative strategies.
2. In the second stage, the data is then processed with IFE and EFE analysis to see the internal and external factors that influence it using the IE matrix. The IE matrix is used to map the total scores of the IFE and EFE matrices resulting from the external and internal audits of the business. The IE matrix consists of two dimensions, namely the total score of the IFE matrix and the total score of the EFE matrix. The total score of the IFE matrix is mapped on the X-axis with a score of 1.0-1.99 indicating a weak internal position, a score of 2.0-2.99 indicating an average position, and a score of 3.0-4.0 indicating a strong position. The total score of the EFE matrix on the Y-axis with a score of 1.0-1.99 indicating a low position, a score of 2.0-2.99 indicating an average position and a score of 3.0-4.0 indicating a high position.

After obtaining strategic options from the IFE and EFE analyses, a SWOT (*Strengths, Weaknesses, Opportunities, and Threats*) analysis was chosen because it is very useful

in the strategic alternative planning process. After that, strategic options were obtained from the SWOT analysis. After obtaining strategic options from the SWOT analysis, the best strategic option can be selected using the *Quantitative Strategic Planning Matrix* (QSPM) analysis method.

RESULTS AND DISCUSSION

This study involved 113 MSME actors who received People's Business Credit (KUR) from Bank Syariah Indonesia (BSI) in the Bogor Area, specifically within the wholesale and retail trade sector and classified as current (collectibility 1). The majority of respondents were male (58.4%) and predominantly acted as business owners (87.6%). Most respondents were between 31 and 50 years old (73.5%), indicating that KUR beneficiaries are largely within the productive age group. In terms of educational background, the largest proportion of respondents held a senior high school diploma (46.9%). Regarding business characteristics, most MSMEs employed between 1-4 workers (86.7%) and were mainly located in Bogor Regency (79.6%). The majority had been operating for 3-5 years (42.5%) and had received KUR financing for 1-3 years (60.2%). Monthly turnover was dominated by the range of IDR 10-99 million (76.1%), reflecting the micro- to small-scale nature of the enterprises.

Overall, these characteristics indicate that the respondents represent relatively established MSMEs that are operationally active but still face structural constraints in scaling up their businesses.

Descriptive Analysis of Research Variables

Table 1. Demographic Characteristics of Respondents

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	66	58.4
	Female	47	41.6
Business Status	Owner	99	87.6
	Manager	14	12.4
Age	20-30 years	15	13.3
	31-50 years	83	73.5
	>50 years	15	13.2
Education	Junior High School	22	19.5
	Senior High School	53	46.9
	Diploma/Bachelor	38	33.6

Source : Analysis DATA SEM (2024)

The descriptive analysis covers three main variables: financial literacy (X1), financial inclusion (X2), and MSME business performance (Y). Each indicator was measured using a four-point Likert scale ranging from 1 (strongly disagree) to 4 (strongly agree).

The results show that the mean scores of all indicators for financial literacy, financial inclusion, and business performance fall within the “good” category. This suggests that respondents generally perceive themselves as having adequate financial knowledge, sufficient access to formal financial services, and relatively satisfactory business performance. However, despite these positive perceptions, the need for further optimization remains evident, particularly in supporting MSMEs to move to a higher business class.

Table 2. Business Characteristics of Respondents

Characteristic	Category	Frequency	Percentage (%)
Number of Employees	1-4 employees	98	86.7
	>4 employees	15	13.3
Business Location	Bogor Regency	90	79.6
	Bogor City	23	20.4
Length of Business	<3 years	31	27.4
	3-5 years	48	42.5
	>5 years	34	30.1
Duration of KUR	1-3 years	68	60.2
	>3 years	45	39.8
Monthly Turnover	IDR 10-99 million	86	76.1
	≥ IDR 100 million	27	23.9

Source : Analysis DATA SEM (2024)

Instrument Testing

Validity Test

The validity test was conducted using the Pearson product-moment correlation method. With a sample size of 113 respondents, the critical r-value was 0.1848. The results indicate that all indicators for financial literacy, financial inclusion, and business performance have calculated r-values greater than the critical value. Therefore, all measurement items are declared valid and suitable for further analysis.

Reliability Test

Reliability was tested using Cronbach’s Alpha to assess the internal consistency of the measurement instruments. The results show that the Cronbach’s Alpha value for financial literacy is 0.856, financial inclusion is 0.917, and business performance is 0.967. Since all values exceed the threshold of 0.63, the instruments are considered highly reliable and consistent.

Classical Assumption Tests

Normality Test

The normality test was performed using a Normal Probability Plot (P-P Plot). The results indicate that the residuals are distributed along the diagonal line, suggesting that the data follow a normal distribution. Thus, the normality assumption is satisfied.

Multicollinearity Test

Multicollinearity was examined using tolerance and Variance Inflation Factor (VIF) values. The results show that all tolerance values are greater than 0.10 and all VIF values are below 10. These findings indicate that there is no multicollinearity among the independent variables.

Heteroscedasticity Test

The heteroscedasticity test was conducted using the Glejser method. The significance values for all independent variables exceed 0.05, indicating the absence of heteroscedasticity. Therefore, the regression model fulfills the homoscedasticity assumption.

Multiple Regression Analysis

Multiple linear regression analysis was employed to examine the influence of financial literacy and financial inclusion on MSME business performance. The regression equation is formulated as follows:

$$Y = 0.006 + 0.388X_1 + 0.654X_2 + e$$

The regression coefficients indicate that both financial literacy (X1) and financial inclusion (X2) have positive effects on business performance. Financial inclusion demonstrates the strongest influence, suggesting that access to and utilization of formal financial services play a dominant role in enhancing MSME performance.

Coefficient of Determination

The coefficient of determination (R^2) is 0.713, with a correlation coefficient (R) of 0.844. This result indicates that 71.3% of the variation in MSME business performance can be explained by financial literacy and financial inclusion. The remaining 28.7% is influenced by other factors not included in the model.

Partial Test (t-test)

The t-test results show that financial literacy (X1) has a calculated t-value of 4.165, which exceeds the critical t-value of 1.9818, with a significance level of 0.000. Similarly, financial inclusion (X2) has a calculated t-value of 8.683, also exceeding the critical value, with a significance level of 0.000. These findings confirm that both variables have a positive and significant effect on MSME business performance.

Simultaneous Test (F-test)

The F-test results show a calculated F-value of 136.740, which is greater than the critical F-value of 3.9274, with a significance level of 0.000. This indicates that financial literacy and financial inclusion simultaneously have a significant effect on MSME business performance.

Strategic Analysis Results

IFE and EFE Analysis

The Internal Factor Evaluation (IFE) matrix yields a total score of 3.118, indicating strong internal conditions. The External Factor Evaluation (EFE) matrix produces a total score of 3.561, reflecting a favorable external environment. These results suggest that MSMEs receiving KUR financing from BSI in the Bogor Area are in a strong strategic position to pursue growth and upgrading.

SWOT Matrix Analysis

The SWOT analysis generates four strategic alternatives: SO, WO, ST, and WT strategies. These strategies focus on improving financial access, strengthening MSME capabilities, mitigating external risks, and enhancing institutional support from BSI.

QSPM Analysis

The Quantitative Strategic Planning Matrix (QSPM) identifies the most attractive strategic priorities. The highest-ranked strategy is improving financial inclusion by providing easier access to banking services for MSMEs. This is followed by strengthening the role of KUR in upgrading unbankable MSMEs and enhancing financial literacy through digital transaction education.

The Effect of Financial Literacy on MSME Business Performance

The empirical results support H1, indicating that financial literacy has a positive and statistically significant effect on the business performance of MSMEs receiving KUR financing. This finding is consistent with human capital theory, which posits that knowledge and skills enhance individuals' productivity and decision-making quality. In the MSME context, financial literacy equips entrepreneurs with the ability to understand financial products, manage cash flows, evaluate investment opportunities, and maintain financial discipline.

This result aligns with prior empirical studies showing that financially literate entrepreneurs tend to exhibit better business planning, improved cost control, and higher profitability (Lusardi & Mitchell, 2017; Grohmann et al., 2018). McKenzie and Woodruff (2017) further emphasize that financial knowledge improves entrepreneurs'

ability to translate external financing into productive business use rather than consumption smoothing.

In the specific context of KUR beneficiaries, financial literacy plays a crucial role in ensuring that subsidized financing is allocated to productive activities, such as inventory expansion, operational improvements, and market development. MSMEs with higher financial literacy are also better positioned to manage repayment schedules and mitigate financial distress, thereby maintaining loan quality and business sustainability.

However, the relatively smaller regression coefficient of financial literacy compared to financial inclusion suggests that financial knowledge alone may not be sufficient to drive substantial performance improvements. This finding implies that the benefits of financial literacy may be constrained in environments where access to formal financial services remains limited. Consequently, while H1 is accepted, the results indicate that financial literacy must be supported by broader financial system access to fully realize its impact on MSME upgrading.

H1: Financial literacy has a positive and significant effect on MSME business performance.

The Effect of Financial Inclusion on MSME Business Performance

The findings strongly support H2, demonstrating that financial inclusion exerts a positive and significant influence on MSME business performance and emerges as the most dominant explanatory variable in the model. This result corroborates extensive international evidence suggesting that access to formal financial services—such as credit, savings, payment systems, and digital banking—enhances firm productivity, efficiency, and growth potential (Beck & Demirgüç-Kunt, 2019; Morgan & Trinh, 2019).

From a structural perspective, financial inclusion reduces information asymmetry between MSMEs and financial institutions, improves credit assessment processes, and facilitates long-term banking relationships. These mechanisms enable MSMEs to access larger and more flexible financing schemes, supporting business expansion and resilience. Within the Islamic banking framework, financial inclusion extends beyond conventional access to credit. It encompasses sharia-compliant financial products that emphasize risk-sharing, ethical financing, and transactional transparency. The dominance of financial inclusion in this study suggests that continuous engagement with BSI's financial ecosystem—such as transactional accounts, digital payment facilities, and structured Islamic financing—significantly enhances MSME operational performance. This finding reinforces the argument that Islamic banks can function as effective agents of inclusive growth, particularly for MSMEs that were previously unbankable. By integrating MSMEs into the formal financial system, Islamic banking institutions facilitate not only access to capital but also broader financial capability development. Thus, H2 is strongly accepted, highlighting financial inclusion as a key driver of MSME performance improvement and upgrading.

H2: Financial inclusion has a positive and significant effect on MSME business performance.

Joint Effects of Financial Literacy and Financial Inclusion on MSME Performance

Beyond the individual hypotheses, the results indicate that financial literacy and financial inclusion jointly explain a substantial proportion of variation in MSME business performance ($R^2 = 0.713$). This finding supports the theoretical proposition that MSME upgrading is a multidimensional process requiring both individual-level capability development and institutional-level financial access (Ayyagari et al., 2017). The complementary nature of these variables suggests that financial literacy enhances MSMEs' ability to utilize financial services effectively, while financial inclusion provides the structural access necessary for applying financial knowledge in practice. This interaction explains why policies focused solely on credit expansion or financial education often produce limited outcomes when implemented in isolation.

Implications for MSME Upgrading and Strategic Orientation

The strategic analysis results (IFE, EFE, SWOT, and QSPM) further reinforce the hypothesis-driven findings. MSMEs receiving KUR from BSI operate in a favorable internal and external environment, indicating strong potential for upgrading. The prioritization of financial inclusion strategies in the QSPM analysis confirms that systemic interventions—such as improving access to banking services and strengthening the institutional role of KUR—are more impactful than isolated capacity-building initiatives.

These findings challenge earlier studies that conceptualize KUR primarily as a short-term financing instrument. Instead, this study positions KUR as a strategic policy tool that can facilitate MSME upgrading when integrated with financial literacy enhancement and inclusive banking practices.

Contribution to Islamic Banking and MSME Development Literature

This study contributes to the literature in several important ways. First, it empirically validates the hypothesized relationships between financial literacy, financial inclusion, and MSME business performance within a single analytical framework. Second, it extends MSME financing research by incorporating an Islamic banking perspective, which remains relatively underexplored in international literature.

Third, the integration of econometric analysis with strategic management tools provides a novel methodological contribution by linking hypothesis testing with actionable strategic recommendations. This approach enhances the relevance of the findings for both academics and practitioners.

CONCLUSION

This study analyzes the effects of financial literacy and financial inclusion on the business performance of Micro, Small, and Medium Enterprises (MSMEs) receiving People's Business Credit (KUR) from Bank Syariah Indonesia (BSI) in the Bogor Area. The findings confirm that both factors play a significant role in improving MSME performance and supporting business upgrading. The results show that financial literacy has a positive and significant effect on MSME business performance.

MSME owners with higher financial knowledge are better able to manage cash flows, use financing productively, and meet repayment obligations. Financial literacy therefore functions as an important internal capability that helps MSMEs convert financing into operational improvements. However, its impact is relatively moderate, indicating that financial literacy alone is not sufficient to drive substantial MSME upgrading without broader access to financial services. In contrast, financial inclusion has a stronger and more dominant influence on MSME performance. Access to formal and sharia-compliant banking services—including financing facilities, transactional accounts, and digital banking—significantly enhances MSME productivity, efficiency, and growth potential. This finding highlights the strategic role of Islamic banks in promoting inclusive economic development, particularly for MSMEs that were previously unbankable.

The joint effect of financial literacy and financial inclusion explains a substantial proportion of variation in MSME business performance, confirming that MSME upgrading is a multidimensional process requiring both entrepreneurial capability and institutional financial support. Strategic analysis further shows that MSMEs receiving KUR from BSI operate in a favorable environment for upgrading, with priority strategies focusing on strengthening financial inclusion, enhancing the strategic role of KUR, and improving digital financial literacy. Despite its contributions, this study is limited to a single region and sector and relies on cross-sectional data. Future research should expand the scope by incorporating longitudinal data, broader geographic coverage, and additional explanatory variables. Overall, this study concludes that sustainable MSME upgrading requires an integrated approach in which financial literacy, financial inclusion, and KUR financing work synergistically within the Islamic banking framework to improve MSME performance and long-term growth.

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