

## Alleviating Poverty and Achieving Inclusive Growth Through Msmes' Digital Innovation



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### ABSTRACT

Inequality and poverty are interrelated factors with negative influences on economic growth. Inequality can undermine institutional efficiency that propagates economic security. Poverty will have different influences along with the effects of inequality on the society. Poverty negatively influences consumption growth and, consequently, decreases as the economy grows.

Technology is a strategy to deal with ongoing developments in the era of globalization and digitalization characterized with mobility of goods and services, capital flows, and use of technology. MSMEs' development through technological innovations developing in the community is expected to expand market coverage and accelerate the structural transformation process.

Alleviating poverty and achieving inclusive growth through MSMEs' digital innovation of SMEs are recommended to be carried out through 4 (four) policy pillars: strengthening MSMEs' digital literacy; increasing SMEs' skills and capabilities; legal licensing; and MSMEs' financial literacy and accessibility.

## 1. INTRODUCTION

Eradicating poverty in any forms and dimensions is one of the biggest challenges faced by the country for countless years. Economic recovery has positive influence on

improved public prosperity. This improved from Indonesia's poverty level per March 2022 to 9.54% from 9.71% in September 2021 (March 2021: 10.14%). This shows the quality of economic growth in quarter I of 2022. The poverty level is in a descending trend amidst the pressure of global commodity price, especially food and energy prices which influence domestic prices and public purchasing power. This is something positive and effective that needs to be followed up with State Budget's function as a shock absorber.

The government has made some policies to maintain energy domestic selling price despite the consequence of increasing budget for energy subsidy and compensation to maintain public purchasing power. State Budget has played an important role as a shock absorber by absorbing the increase in pressure of global commodity price. If the pressure of global commodity price is left transmitted to domestic prices, Indonesia's inflation is likely to be as high as that in many countries. The consequence is the people's increased poverty level. The continuation of national economic recovery must be supported with the people's economic self-resilience as a shock absorber capable of absorbing disturbance in the community.

The poverty rate declines despite Indonesia's increased poverty line threshold in line with economic issues. The poverty line threshold in March 2022 increased 4.0% to Rp505,469 from Rp486,168 in September 2021. However, the poverty line increases, while poverty rate can still be decreased.

Whether Indonesia's economic growth increases or decreases is influenced by some factors, including MSMEs' involvement. The high number of MSMEs in Indonesia cannot be separated from various challenges and the Covid-19 pandemic condition which drive changes in the goods and services consumption pattern as a momentum to accelerate digital transformation. MSMEs, which absorb more workers, participate in improving **the condition of rural revenue**.

In this article, we show how digitalization contributes to economic transformation, growth, and poverty alleviation focusing on Central Java. This article is specifically intended to show how adoption of technology innovation may potentially increase productivity and contribution to prosperity better. This article consists of 3 sections. Section 1 explains the status of poverty and economic growth in Central Java. Section 2 shows MSMEs' role in driving local economic growth improvement. Section 3 focuses on how digital innovation

adoption by MSMEs can help solve the poverty and inequality challenges in Central Java. Section 4 identifies some strategic problems and issues and the policies needed to make use of digital technology to achieve economic and inclusive growth in Central Java.

## **2. LITERATURE REVIEW AND HYPOTHESIS**

### **Poverty**

Poverty is about not having sufficient money to satisfy one's basic needs including food, clothing and residence. However, poverty is more than merely not having sufficient money (Lakner et al., 2022). The World Bank Organization describes poverty as follows: "Poverty means famine; lack of residence (Wordbank). Poverty can be defined as a human condition marked with continuous or chronic appropriation of resource, skill, choice, security and power needed to enjoy the standards of living and civil, cultural, economic, political and other social rights (Attanasio et al., 2022). Without employment or livelihood, decreasing access to productive land (often due to conflict, overpopulation, or climate change) and overexploitation of natural resources will drive poverty (Zhu et al., 2022).

Poverty covers more than merely decrease in income and productive resources to assure continuous livelihood (Zhu et al., 2022). The manifestation includes famine and malnutrition, limited access to education and other basic services, social discrimination and exclusion and lack of participation in decision making (Wang et al., 2016). Poverty is associated with negative conditions such as substandard housing, homelessness, insufficient nutrition and food insecurity, insufficient child care, lack of access to health treatment, unsafe environment, and school lacking of resources leading to detrimental effect on children (Lakner et al., 2022).

### **Inclusive Economic Growth.**

An economic growth is inclusive if it is able to alleviate poverty, alleviate income distribution inequality, and absorb more workforces (Soleh et al., 2022). The main objective of inclusive development is to reduce the number of the poor through job opportunities, access to economic opportunities and social safety net (Zabelina Olga Victorovna & Sergeeva Maria Vyacheslavovna, 2022).

BPS's 2022 data show economic growth is positively correlated with poverty level alleviation in Indonesia. Inclusive development is an approach introduced as a form of

“reaction” to a development which emphasizes growth and leaves marginal group (Yoruk et al., 2022). This approach is echoed as an effort to distribute development not only to exclusive groups (Karim et al., 2022).

Inclusive Economic Development Index is an instrument to measure or monitor the extent of the inclusiveness level of Indonesian development at national, provincial, and regency/city levels. Inclusive Economic Development Index measures the inclusiveness of Indonesian development from economic growth, inequality and poverty aspects, and access and opportunity. Inclusive Economic Development Index consists of 3 pillars: Economic Growth and Development; Distribution of Income and Poverty Alleviation; and Extension of Access and Opportunity.

#### Digital Innovation

Digital innovation is a practice of modern digital technology application to solve business problems by optimizing the process, improving customer experience, and presenting a new business model (Ramdani et al., 2022). When Covid-19 makes it for customers to buy directly, MSMEs see this as a challenge to face. MSMEs involve digital technology application accordingly to market the existing products, such as making use of cellular based social media applications for customers to order and receive products without contact. This innovation is an example of digital business innovation. Digital technology application is involved to improve operational efficiency, which eventually enhances customer satisfaction (Sheikh et al., 2021). One of the key factors to company success is compatibility between digital business innovation and corporate digital strategy (van Looy, 2021).

Digital innovation is addressed to every business in order to keep competitive and beneficial by building products and services preferred by consumers (Bogers et al., 2022). Digital technology gives MSMEs a new opportunity such as better access to skills and talents, bigger access to the market, broader access to financing, better communication and collaboration, bigger access to technology and application, broader product development, and bureaucratic reduction (Kohli & Melville, 2019). Digital innovation can be defined as a new product, process, or business model, which needs some significant changes in the adopters, and is realized or enabled by technology and information (Nylén & Holmström, 2015). Digital innovation is a process of creating a new business or substantially changing the existing things through technology and information (Nambisan et al., 2017; Nylén &

Holmström, 2015). Process innovation is generally related to: (1) digital change in working procedure, or (2) creation of smarter process (van Looy, 2021). Digital innovation is performed to make a business process faster, more efficient and innovative in order to solve unstructured data and business process (Bogers et al., 2022). Since Digital innovation is more than merely using new technology, digital strategy helps combine user's desire, business feasibility, and technology feasibility (Ding et al., 2022).

### **3. RESEARCH METHOD**

This research used a document/ text study and phenomenology approaches. The document study here was performed by collecting and analyzing scientific articles/publications that were suitable for the research and collecting BPS's quantitative survey results. The phenomenology approach was performed by studying the situation and condition MSMEs developing in Central Java. In the data collection process, the researcher (i) set the limit to the scope of research, (ii) recorded the data using field note, (iii) collected the data using recorder, (iv) investigated contradictive situations, and (v) performed field analysis. In this research, the data analysis started by collecting field data, which were then classified as per focus and objectives to be achieved. The data classified were used for interpretation or verification using the theoretical basis in this research.

### **4. RESULTS AND DISCUSSIONS**

Status of Poverty and Economic Growth in Central Java.

Poverty level reflects the percentage of people living with income less than or half of average national income. Poverty is not only related to income rate, but also to social, environmental, empowerment and participatory aspects. Poverty can be explained as famine, no residence, not school opportunity, unemployment, no assurance of future, and no freedom (Soleh et al., 2022). One of the causes of poverty is that the prevailing social-economic system allows centralization of strengths or resources to certain party, which inhibits other parties to participate in accessing or using the facilities and economic facilities which should be available for them (Karim et al., 2022).

Table 1  
Indonesia's poverty level from 2017 to 2022 (per March 2022)

	2017	2018	2019	2020	2021	2022
%	12.23	11.19	10.58	11.84	11.79	10.93
Population	4.20 million	3.87 million	3.68 million	4.12 million	3.93 million	3.83 million

Source: Susenas March 2022

Poverty level improvement occurred evenly throughout the Indonesian islands, both in rural and urban areas in March 2022. In September 2021, the poverty level in Central Java was at 11.25 percent. The number declined to 10.93 percent pada March 2022. Therefore, the number of the poor in Central Java declined for 102,570 people from 3.93 million people to 3.83 million people. The data is supported by the survey by the National Social and Economy (Susenas) in March 2022. The percentage of poverty in Central Java declined 0.86 percent from the data in March 2021 from 11.79 percent. Central Java was able to reduce the poverty level annually. Based on BPS data, the poverty level in Central Java in September 2017 was 12.23 percent or 4.20 million people. This number later declined in September 2018 to 11.19 percent or 3.87 million people. The poverty rate declined more in September 2019 to 10.58 percent or 3.68 million people. However, the Covid-19 pandemic made the poverty rate in Central Java to rise. The poverty rate in September 2020 was recorded 11.84 percent or 4.12 million people.

A region's poverty issue is not only about the number and percentage of the poor, but the poverty gap level and poverty severity level also need attention. The Poverty Gap Index (P1) in Central Java in March 2022 was 1.771. This number is lower than the position in September 2021 which was 1.938 and than the position in March 2021 which was 1.911. This means that the average expenditure gap of each of the poor on the poverty line declined. The Poverty Severity Index (P2) in Central Java in March 2022 was 0.416. This number is lower than the position in September 2021 which was 0.459 and than the position in March 2021 which was 0.450. This means that the expenditure distribution among the poor also declined.

MSMEs' Role in Driving Local Economic Growth Improvement.

MSMEs' contribution is recorded to about 61 percent of the national GDP and absorbing 97 percent of total workers. In each critical period, MSMEs even serve as buffer, are resilient, and able to recover well. Out of a number of programs done by the Provincial Government of Central Java in eradicating poverty, MSMEs plays a big role. When the people obtain skills and capital to initiate MSMEs, they will gain continuous income. They can even employ women.

For MSMEs' advancement in the all-digital era, MSME players must follow digitalization, in which in product marketing and financial transaction are done digitally. Bank Indonesia encourages MSME players to use QR Code Indonesia Standard (QRIS) for easier, faster and safer transaction process. This measure is an effort to advance Central Java's economy through cashless payment system, which is more effective and efficient.

MSMEs are believed to be able to serve as a short-term solution to driving the economy since majority of the community's businesses are of micro, small and medium-scale businesses. When demand and production are collectively stagnant, strengths are needed which can drive the economy simultaneously, flexibly, quickly, in various and widespread ways.

Despite belief that it is a solution, but driving MSMEs massively and simultaneously cannot be done immediately and free of constraints. The fact that MSMEs are businesses which are flexible and easy to develop, on one hand, is indeed its advantage, but it is also its weakness. MSMEs' flexibility may inhibit business sustainability and economic scale improvement; thus, this is a serious challenge for MSMEs' long-term development. The other limitation is lack of information related to complete profiles of the 4.17 million MSMEs in Central Java. Of this number, only about 4% have been under the guidance program of the Provincial Department of Cooperative-MSMEs of Central Java. Very high gap arises between MSMEs under policy intervention and those which are not. MSMEs' big contribution to the economy should be viewed more proportionally. The expectation for MSMEs is too much of a burden, that they are always put as the focus sector in every difficult condition, but this is not accompanied with a whole structural improvement, including institutional improvement.

MSMEs' Adoption of Digital Innovation Can Help Solve the Poverty and Inequality Challenges in Central Java. The globalization era with technology advancement is indeed demanding support for local and national economic growth. In general, globalization is

deemed as a global dependence process driven by capital and investment towards market integration and competition. There are five important and strategic roles in the use of technology in support of MSMEs' development, as follows:

- 1) change manual process to automatic process. Using digital technology can reduce labor costs and operational cost;
- 2) reduce the time needed to do tasks, thus production can be performed more effectively and efficiently;
- 3) increase the speed of decision making and enhance competitive economic business performance;
- 4) save promotional and marketing cost through the use of digital media for product and service marketing;
- 5) integrate system from product process to marketing.

Therefore, technology's function and role will accelerate business world transformation, including MSMEs developing in the community. This way, the use of technology serves to drive business survival, digital transformation, and entrepreneurship.

Inclusive Economic Growth in Central Java through MSMEs' Use of Digital Technology . Economic development and growth must significantly contribute to the effort of poverty alleviation and even distribution of development (Soleh et al., 2022). Economic growth that only takes economic growth aspect as the only goal of achievement will drive high economic growth without evenly distributing prosperity along with high rate of unemployment, high rate of poverty, and increasing gini ratio, and continuously degraded environmental carrying capacity due to development process (Zabelina Olga Victorovna & Sergeeva Maria Vyacheslavovna, 2022).

Many groups receive different treatments only due to difference in sex, ethnicity, age, sexual orientation or poverty. Unequal development is clearly an effect of such development model. Inclusive development in poverty alleviation can be realized only if all parties contribute to creating equal opportunities, sharing development benefit and giving as broadest space of participation as possible in decision making; all of which are based on respect for the human rights, participatory, non-discriminative and accountable values and principles (Yoruk et al., 2022).

Therefore, the main strategies of inclusive development are:

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1. create productive and beneficial jobs,
2. provide effective and efficient social safety net to protect those who are unable to work or get too small of development benefit,
3. improve basic public services and sufficient supporting public policy.

Inclusive economic development is implemented as a local development model, with full involvement of government, business sector and civil society (Karim et al., 2022). This model is translated into program intervention by the government, including: strategic study on local economic potential, participative document development and planning agreement, multiparty forum development, advocacy of public policies needed to build inclusive development atmosphere and support for small and medium scale enterprises (especially those based on the use of natural resources).

Strategic issues and policies needed to use digital technology in achieving economic and inclusive growth in Central Java were arranged using SOAR analysis. The analysis used SOAR Strategy analysis. SOAR analysis diagram is a diagram serving to identify the situation and position faced by organization in business competition by internal factors possessed by the organization and external factors faced by the organization to create aspirations to be achieved. The SOAR (Strengths, Opportunities, Aspirations, Results) concept is an alternative to SWOT analysis which is derived from the Appreciative Inquiry (AI) approach.

SOAR model changes the highly established SWOT analysis, in case of organization's internal weakness factors and external threats faced by it into aspiration factors of the company and measured results to be achieved. This analysis model argues that weakness threat factors may induce negative feeling for organization's members, reducing their motivation to do the best. In SOAR framework, as many stakeholders as possible are involved, which is members' integrity based. Integrity issue is very important since stakeholders should be aware of assumptions which are the driving base for organization leaders.

This paper is a literature study on the references and documents available using SOAR analysis. The data processing and analysis process used was descriptive analysis to identify

policy's action plan to alleviate poverty and achieve inclusive growth through MSMEs' digital innovation in Central Java.

Descriptive analysis was used to analyze the internal and external environments in the form of strengths, opportunities and aspirations and results to be achieved. The quantitative analysis used External Factor Evaluation (EFE) matrix and Internal Factor Evaluation (IFE) matrix. Calculation with EFE and IFE matrixes will have the most appropriate strategy to apply. The internal and external factors were identified through discussion with Academicians, Provincial Government of Central Java, Community, MSME players/community and media representatives.

## **5. CONCLUSIONS**

Poverty will lead to a decline in the employment available, and export and import. Besides, inequality and poverty are likely to be interrelated and have negative influence on economic growth. Inequality may shake institutional efficiency which distributes economic security. Furthermore, the estimated economic growth therein must also consider control of inequality and income, but not poverty, it may not successfully catch the weaknesses which reduce growth. The impacts of poverty will be different in line with the effect of inequality experienced by the community. Poverty has negative influence on economic growth, and consequently, poverty declines in line with economic growth.

Technology is important in business competition and has reached all aspects of business life. This means that technology is a strategy in the face of existing development in the globalization and digitalization era. The influences of globalization are marked with mobility of goods and services, capital flow, and use of technology. MSMEs' development through technology innovation developing in the community is expected to expand market coverage and structural transformation acceleration process.

MSMEs need dynamic instrument to support their digital innovation effort. The digital products and services innovation management effort can be performed through:

- 1) Digital products and services must be efficient and easy to learn
- 2) Digital products and services drive users' rich experience, such as satisfaction of the level of use, aesthetics, and involvement.
- 3) MSMEs need to articulate the value proposition of each digital product and service:  
How do they create value for consumers? The quality of value proposition is

assessed from the dynamics of customer segmentation and product and service bundling.

- 4) Digital evolution involves new devices; digital channel such as web service, cellular operation system, and social media; and application shop to identify and use wider innovation opportunities

Digital innovation needs new skills, a company needs to evaluate their mechanism to support continuous learning of the unique characteristics of digital technology to establish a dynamic innovation team.

## **6. IMPLICATIONS, LIMITATIONS AND SUGGESTIONS**

The recommendation would be that alleviating poverty and achieving inclusive growth through MSMEs' digital innovation can be done through 4 (four) policy pillars:

- a. strengthening MSME players' digital literacy;
- b. improving the capability of MSMEs' human resources;
- c. ease of access to licensing
- d. MSMEs' financial literacy and accessibility.

This qualitative used secondary data from BPS's survey results, documents on economic growth of the Provincial Government of Central Java and scientific articles with the same theme. However, the limited data related to MSMEs' profiles in Central Java make superficial discussion on field implications. Thus, it would be quite interesting to continue the research using a numeric based method through presentation of more specific data.

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