



**PUBLIC POLICY INNOVATION TO ENHANCE THE
COMPETITIVENESS OF MICRO, SMALL, AND MEDIUM
ENTERPRISES (MSMEs) IN KEPAHANG REGENCY, BENGKULU
PROVINCE**

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ABSTRACT

Digitization, or “going digital,” is something that entrepreneurs—whether large-scale or small-scale, particularly MSMEs in Indonesia—can no longer avoid. This study aims to analyze the public policy innovations implemented by the Kepahiang Regency Government to enhance the competitiveness of Micro, Small, and Medium Enterprises (MSMEs) in the digital age. The research employs a literature review method by examining previous studies, government reports, and mass media sources related to public policy innovation and MSMEs development. The findings indicate that the local government has introduced various innovative policies, including digital marketing initiatives for local products, digital literacy training for MSMEs actors, and the strengthening of collaborative ecosystems involving government, private sector, and community stakeholders. These efforts have contributed positively to expanding market access and improving MSMEs capacity. However, challenges remain, particularly limited digital infrastructure, low technological literacy, and weak inter-agency coordination. Strengthening technology-based policy innovation and community participation is essential to ensure sustainable improvement in MSMEs competitiveness at the regional level.

Keyword : Public Policy Innovation; MSMEs Competitiveness; Digital Transformation; Local Government Policy; Collaboration

ABSTRAK

Digitalisasi atau go digital adalah sesuatu yang tidak lagi bisa dihindari oleh pengusaha, baik pengusaha skala besar maupun pengusaha skala kecil khususnya UMKM di Indonesia. Penelitian bertujuan untuk menganalisis inovasi kebijakan publik yang dilakukan oleh Pemerintah Kabupaten Kepahiang dalam meningkatkan daya saing Usaha Mikro, Kecil, dan Menengah (UMKM) di era digital. Metode penelitian yang digunakan adalah tinjauan pustaka dengan mengkaji penelitian terdahulu, laporan pemerintah, dan media massa yang relevan dengan inovasi kebijakan publik dan pengembangan UMKM. Hasil penelitian menunjukkan bahwa pemerintah daerah telah menerapkan berbagai kebijakan inovatif, seperti digitalisasi pemasaran produk lokal, pelatihan literasi digital bagi pelaku UMKM, serta penguatan kolaborasi antara pemerintah, sektor swasta, dan komunitas. Kebijakan tersebut memberikan dampak positif

terhadap perluasan akses pasar dan peningkatan kapasitas UMKM. Namun, masih terdapat kendala berupa keterbatasan infrastruktur digital, rendahnya literasi teknologi, dan koordinasi antarinstansi yang belum optimal. Oleh karena itu, penguatan inovasi kebijakan berbasis teknologi dan partisipasi masyarakat menjadi kunci peningkatan daya saing UMKM secara berkelanjutan.

Kata kunci : Inovasi Kebijakan Publik; Daya Saing UMKM; Transformasi Digital; Kebijakan Pemerintah Daerah; Kolaborasi

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of regional economies and play an important role in generating employment and improving community welfare. In the digital era, MSMEs face emerging challenges, including market transformation, changes in consumer behavior, and increasing global competition. Therefore, local governments are expected to introduce public policy innovations capable of strengthening the digital technology-based competitiveness of MSMEs. As independent business entities operating on a micro, small, or medium scale, MSMEs are highly flexible in adapting to market changes. Nevertheless, they remain vulnerable to structural barriers, including regulatory constraints and limited resources. Consequently, strengthening MSMEs is regarded as an important strategy for promoting inclusive economic development (Ayyagari et al., 2007).

MSMEs constitute an economic sector that plays a strategic role in both national and regional development. Conceptually, MSMEs have been defined by various scholars from economic and public policy perspectives. MSMEs are independently established productive business units owned by individuals or small business entities. Although they generally operate with relatively limited capital, technology, and managerial capacity, they make substantial contributions to employment generation and income distribution. MSMEs are regarded as the backbone of the people's economy because of their ability to survive during periods of economic crisis (Tambunan, 2012). They are also characterized as small-scale economic activities that operate with a high degree of efficiency and flexibility, enabling them to adapt rapidly to market changes. Their primary strengths lie in their proximity to local markets and their ability to utilize locally available resources (Kuncoro, 2007).

Digitalization, commonly referred to as “going digital,” is no longer avoidable for business owners, whether they operate large enterprises or small-scale businesses, particularly MSMEs in Indonesia. The rapid advancement of technological innovation has led to

significant changes in consumer behavior. Digitalization makes it easier for consumers to identify and select preferred goods and services, requiring companies to adjust their strategies to meet consumers' needs and expectations. As one of the principal pillars of Indonesia's business sector, MSMEs are also required to undertake similar adjustments. Businesses must continuously develop and innovate, while the ability to adapt to environmental changes is essential for maximizing business resilience. Therefore, digitalization has become an inevitable strategic decision for business owners, particularly MSME operators.

Kepahiang Regency, as one of the administrative regions in Bengkulu Province, possesses considerable local economic potential, particularly in the agricultural, culinary, and handicraft sectors. However, many MSME operators continue to encounter difficulties in product marketing, access to financing, and adaptation to digital technology. These conditions require public policies that are not merely administrative but also innovative and collaborative in order to accelerate the digital transformation of MSMEs.

MSMEs play a strategic role in driving the national economy, including economic development at the regional level. They serve as the backbone of the people's economy because of their capacity to absorb labor, create added value, and promote a more equitable distribution of income. According to data from the Ministry of Cooperatives and SMEs in 2024, Indonesia had approximately 66.3 million MSME units, contributing 61.97% to the country's Gross Domestic Product (GDP) and absorbing more than 97% of the national workforce. In Bengkulu Province, data from the Bengkulu Provincial Office of Cooperatives and SMEs in 2023 indicated that there were approximately 220,000 MSME units, more than 12,000 of which were located in Kepahiang Regency (Kementerian Koperasi dan UMKM, 2024). These figures demonstrate that the MSME sector constitutes one of the principal pillars of the regional economic structure.

Nevertheless, despite their considerable potential, MSMEs in Kepahiang Regency continue to face various challenges that hinder their ability to improve their competitiveness. The main problems frequently encountered include limited access to financing, inadequate human resource capacity, insufficient product innovation, and restricted access to digital markets. According to a 2023 report issued by the Kepahiang Regency Office of Cooperatives, SMEs, and Trade, approximately 68% of MSMEs were still classified as traditional microenterprises that had not optimally utilized information technology or product innovation. Furthermore, the COVID-19 pandemic, which affected economic activities in

recent years, contributed to a slowdown in economic activity and caused the turnover of many MSMEs to decline by approximately 30–50%.

Other problems commonly faced by small businesses or industries include limited capital, labor, raw materials, and marketing capacity. In a business development strategy, capital, as the funding used to carry out production activities, plays a highly important role. The strength of a business is often determined by the amount and adequacy of the capital it possesses. Marketing is also a crucial activity for MSMEs that produce goods for sale with the objective of generating profits. Through such profits, MSMEs are expected not only to maintain business continuity but also to expand their operations on a larger scale (Arifudin et al., 2020).

Previous studies have generally focused on MSME development from the perspectives of microeconomics, digital marketing, or the partial adoption of technology, without comprehensively examining the role of regional public policy innovation as a strategic factor in strengthening MSME competitiveness. Furthermore, studies that specifically position local governments as the principal actors in policy innovation, particularly within non-metropolitan regencies such as Kepahiang Regency, remain limited. Previous research has also tended to examine MSME programs from a normative perspective without connecting them to the concepts of public policy innovation and collaborative governance in responding to the challenges of digitalization. Therefore, a research gap exists in relation to studies that integrate the perspectives of public policy, policy innovation, and digitally driven MSME competitiveness at the local government level. Public policy refers to a series of government actions designed to address public problems (Dunn, 2017). Meanwhile, public policy innovation refers to efforts to introduce new approaches, ideas, or methods in the formulation and implementation of policies in order to improve the effectiveness of public services (Osborne & Brown, 2011). Competitiveness depends on the ability of an entity to innovate and adapt to changes in the market (Porter, 1990). In addition, collaboration among public and non-public actors is essential for developing effective public policies (Ansell & Gash, 2008).

Within this context, local governments play an important role in promoting innovative policies capable of strengthening the competitiveness of local MSMEs. Public policy innovation does not merely involve introducing new programs; rather, it concerns the government's ability to design policies that are adaptive to changes in the social, economic, and technological environment. The Kepahiang Regency Government has implemented several initiatives, including the “MSMEs Moving Up” program, assistance in obtaining halal

certification and Home Industry Food Production Certificates (PIRT), and digital marketing training conducted in collaboration with various stakeholders, including universities and local business communities. However, the effectiveness of these programs requires further comprehensive examination to ensure their sustainability and determine their impact on improving the competitiveness of MSMEs in the region.

This study is necessary to address the identified research gap by comprehensively analyzing how public policy innovations designed and implemented by the Kepahiang Regency Government contribute to strengthening MSME competitiveness in the digital era. Furthermore, this study aims to provide conceptual and empirical insights into the importance of innovative, collaborative, and technology-based policies as instruments of regional economic development. The findings are expected to serve as an academic reference for the development of public administration theory, while also providing a basis for policy recommendations for local governments in designing sustainable MSME strengthening strategies that are adaptive to digital dynamics. In addition to policy-related factors, collaboration among stakeholders is an essential element in strengthening the position of MSMEs in an increasingly competitive market. Local governments, financial institutions, academics, and business operators must work synergistically to establish an innovative ecosystem that supports the growth of MSMEs through creativity and digitalization. In line with the national policy direction outlined in Indonesia's 2020–2024 National Medium-Term Development Plan (RPJMN), strengthening MSMEs constitutes one of the priorities for achieving inclusive and sustainable economic development.

RESEARCH METHOD

This study employs a literature review method by examining various sources related to public policy innovation, including previous studies, government reports, and mass media publications. A literature review is a systematic process of identifying, evaluating, and synthesizing the findings of previous studies in order to establish a conceptual framework and strengthen the theoretical foundation of a study. It also serves to position new research within the existing body of knowledge while identifying research gaps that require further investigation (Creswell, 2014). Furthermore, a literature review aims to provide a comprehensive understanding of the development of knowledge within a particular field through the analysis and interpretation of previous findings. In the context of the social sciences and public administration, literature reviews are used to examine concepts, theories,

policy models, and practices relevant to the research issue (Snyder, 2019). Accordingly, this study applies the literature review method by examining various sources related to public policy innovation and Micro, Small, and Medium Enterprises (MSMEs). These sources include previous studies, relevant academic journals, government reports, and mass media publications obtained through several online searches. The geographical focus of this study is specifically Kepahiang Regency, Bengkulu Province.

RESULT AND DISCUSSION

Micro, Small, and Medium Enterprises (MSMEs) are small-scale business entities established through individual initiatives. Many people assume that MSMEs provide benefits only to certain parties. In reality, however, MSMEs play an important role in reducing unemployment in Indonesia. These enterprises are capable of absorbing a substantial number of unemployed workers. In addition, MSMEs make significant contributions to both regional and national revenues (Saefullah & Rohaeni, 2021). MSMEs constitute a business sector that contributes significantly to economic growth and employment creation, particularly in developing countries. Nevertheless, MSMEs frequently encounter limited access to financing, technology, and markets, thereby requiring appropriate public policy support (Beck & Demirguc-Kunt, 2006).

The development of MSMEs can be optimized through policies that facilitate access to financing, provide entrepreneurship training, and improve supporting infrastructure to promote business transformation toward digitalization and greater operational efficiency (Tomahuw et al., 2024). Although MSMEs are generally established with limited capital, they possess considerable potential for growth when supported by appropriate policies, including access to capital, training, and technology adoption. From a public policy perspective, MSMEs are independently managed business entities that do not dominate the market and have a limited number of employees and assets. Nevertheless, they play an important role as incubators of entrepreneurship and economic innovation (Zimmerer et al., 2008). Globally, MSMEs are recognized as major drivers of innovation and local economic growth because of their ability to respond rapidly to market demands. They also tend to be more resilient to global economic disruptions than large corporations. Consequently, MSMEs play an important role in maintaining Indonesia's economic stability, particularly during periods of crisis. However, they continue to face significant challenges, including limited access to

capital and insufficient knowledge, technical guidance, and business assistance required to strengthen their competitiveness.

Innovation as an “object” refers to a new product or practice made available for application, generally within a commercial context. Different degrees of novelty may be distinguished depending on the context. An innovation may be new to a particular company or actor, new to a market, country, or region, or entirely new at the global level. Meanwhile, innovation as an “activity” refers to the process of creating an innovation and is frequently associated with the commercialization of an invention. Public policy innovation may be understood as a renewal in policy processes, products, or methods resulting from interactions between governmental and non-governmental actors. Policy innovation cannot be separated from cross-sector collaboration and public participation in the policymaking process (Hartley, 2005). Innovation is also defined as a creative and interactive process involving both market and non-market institutions (OECD, 1999). Furthermore, innovation refers to the transformation of knowledge into new products, processes, and services, as well as the act of applying something new (Rosenfeld, 2002). Based on these definitions, innovation in public services can be interpreted as the introduction of renewal, creativity, or new forms of creation in the provision of public services.

The number of registered MSMEs in Kepahiang Regency has consistently increased each year, as illustrated in the following graph:

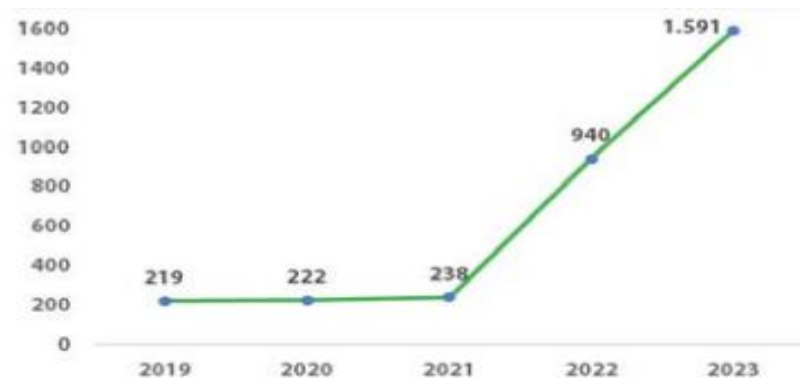


Figure 1. Number of Registered Micro, Small, and Medium Enterprises in Kepahiang Regency, 2022–2023

Source : Bengkulu Province Investment and One-Stop Service Agency, Bengkulu Province, 2024

Based on the data presented above, it can be observed that, in terms of business scale, Kepahiang Regency is predominantly characterized by Micro, Small, and Medium Enterprises

(MSMEs) . Businesses classified as MSMEs are those with an annual turnover of less than IDR 2.5 billion. The number of registered MSMEs in Kepahiang Regency increased significantly over the three-year period, from 238 business units in 2021 to 940 units in 2022, and further to 1,591 business units in 2023.

Jenis Sarana Perdagangan	2023
(1)	(2)
Pasar	13
Toko	277
Kios	525
Warung	1.192
Total	2.007

Figure 2. Number of Trade Facilities by Type in Kepahiang Regency, 2023

Sumber : Bengkulu Province Investment and One-Stop Service Agency, Bengkulu Province, 2024

Trade activities constitute one of the major contributors to the Gross Regional Domestic Product (GRDP) of Kepahiang Regency. In 2023, the regency had 13 traditional markets serving as centers of buying and selling activities. In addition, there were 1,192 food stalls and small shops, 525 kiosks, and 277 retail stores throughout Kepahiang Regency. Despite the substantial number of MSMEs operating in Kepahiang Regency, many business operators have not yet fully embraced digitalization. Some MSME operators still lack an understanding of the basic principles of digital marketing and the importance of product branding. Many are unfamiliar with digital marketing techniques and have limited proficiency in using digital tools and applications that could support their marketing activities. Consequently, they experience difficulties in utilizing online platforms to promote their products. MSMEs generally remain dependent on local markets and conventional marketing methods, thereby missing opportunities to reach a broader customer base through digital channels. Many business operators still market their products manually by waiting for customers to visit their business locations, while a considerable number lack the knowledge and skills required to promote their products effectively.

The Kepahiang Regency Government has introduced several forms of public policy innovation aimed at strengthening the competitiveness of MSMEs in the digital era. These policies include the MSMEs Go Digital program, the development of a regional e-commerce

portal, cross-sector collaboration to improve access to digital financing, and virtual exhibitions of local products. The MSMEs Go Digital program represents one of the principal innovations because it provides digital literacy training for business operators in collaboration with universities and local digital communities. Through this training, MSME operators learn how to use social media, online marketplaces, and other digital platforms to expand their market reach. In addition, the Kepahiang Regency Government has developed a web-based marketing portal to showcase prominent regional products, including robusta coffee, bamboo handicrafts, and organic agricultural products. Collaboration with financial institutions, such as Bank Bengkulu and the Financial Services Authority or Otoritas Jasa Keuangan (OJK), has also been established to broaden MSMEs' access to digital financing. This initiative reflects the implementation of the principles of collaborative governance (Ansell & Gash, 2008), according to which the success of public policy is influenced by the involvement of multiple actors. Virtual exhibitions have also been employed as a creative strategy for promoting local products during the pandemic, enabling MSMEs to expand their business networks without geographical limitations.

Field findings indicate that these policy innovations have begun to generate positive outcomes, including an increase in the number of MSMEs conducting online transactions, greater participation among business operators in digital training programs, and the establishment of technology-based young entrepreneur communities. Nevertheless, several major obstacles remain, including limited internet infrastructure, low levels of digital literacy, restricted regional budgets, and insufficient coordination among government agencies. These challenges need to be addressed through further policies aimed at strengthening rural connectivity, developing human resource capacity, and establishing integrated cross-sector planning.

Based on the theory of public policy innovation proposed by Osborne and Brown (2011), the initiatives undertaken by the Kepahiang Regency Government can be categorized as process innovations because they focus on new methods of policy implementation through technology and collaboration. From the perspective of Porter's theory of competitiveness (1990), MSME digitalization policies contribute to strengthening regional competitive advantage through innovation and the differentiation of local products. Compared with other regions in Bengkulu Province, Kepahiang Regency has demonstrated relatively positive progress. However, stronger infrastructural and financial support is still required to accelerate the digital transformation of the local economy.

CONCLUSION

Some MSME operators have not yet acquired a sufficient understanding of the fundamental principles of digital marketing. Many remain unfamiliar with digital marketing techniques and lack proficiency in using digital tools and applications that could support their marketing activities. As a result, they experience difficulties in utilizing online platforms to promote their products. MSMEs generally continue to rely on local markets and traditional marketing methods, causing them to miss opportunities to reach a broader customer base through digital channels. Furthermore, MSME operators often do not conduct comprehensive market analyses, which limits their understanding of customer needs and preferences.

Public policy innovations introduced by the Kepahiang Regency Government play an important role in strengthening MSME competitiveness in the digital era. Through digital literacy training, cross-sector collaboration, and the development of a regional e-commerce system, the government has established a foundation for local economic transformation. However, to ensure the sustainability of these policies, further efforts are required to strengthen human resource capacity, ensure the equitable development of digital infrastructure, and improve coordination among government agencies.

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