

Macroeconomic Impact of Export-Oriented Facilities for Small and Medium (SMEs) in Bali

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ABSTRACT

The Micro, Small, and Medium Enterprises (MSMEs) sector plays a pivotal role in Bali's economic development, contributing significantly to regional income and employment. Despite the potential for growth through export-oriented activities, the utilization of KITE IKM facilities—designed to simplify procedures and provide fiscal incentives—remains low among Bali's SMEs. This study explores the macroeconomic impact of these facilities on export value, investment, and labor absorption, while identifying barriers to their adoption. Using a qualitative method with a phenomenological approach, data were collected through questionnaires, interviews, and secondary sources from Denpasar Customs and SMEs. Findings reveal that while KITE IKM facilities enhance export performance and investment, their benefits are unevenly distributed due to internal challenges (e.g., governance issues, lack of knowledge) and external obstacles (e.g., stakeholder coordination gaps). The study highlights the need for improved regulatory socialization, system efficiency, and policy adjustments to maximize SME participation. Implications suggest that targeted interventions, such as enhanced communication and education, can foster sustainable SME growth, stimulate exports, and empower Bali's economy.

KEYWORDS MSMEs, fiscal policy, export-oriented



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INTRODUCTION

The MSME sector has a significant impact on economic development in Bali, Indonesia (Purnamawati et al., 2018; Saputra & Darmawan, 2023). The economic activities conducted by micro, small, and medium enterprises (MSMEs) contribute substantially to Regional Original Income (PAD). MSMEs serve as a source of livelihood for many people and provide employment opportunities for individuals with varied educational backgrounds and skill levels. The expansion of MSMEs positively influences labor absorption, equitable development, and the augmentation of gross regional domestic revenue (Adiputra, Suardhika, & Yuesti, 2023).

Bali possesses considerable potential to drive economic growth within the MSME sector (Purwanti et al., 2022; Saputra & Darmawan, 2023). Renowned

internationally for its natural beauty and distinctive cultural diversity, Bali attracts numerous visitors. The Balinese populace demonstrates remarkable creativity and innovation in producing handicrafts and advancing the tourism sector, which increasingly captivates visitors. Bali offers assets that other regions do not possess, particularly the creativity, talents, and perseverance of its artisans, especially in the manufacture of craft products. These advantages must be systematically organized to ensure that the development of craft and home decor products utilizes market information as a foundation. This includes conducting product development research to enhance the competitiveness of creative products from Bali relative to others, thereby excelling in international trade (Mahadewi & Irwanti, 2016).

As a hub of worldwide tourism and commerce, Bali experiences a continuous influx and outflux of goods daily. Imported items, including electronics, apparel, and household appliances, inundate the local market, while indigenous products, such as handicrafts and agricultural goods, are exported abroad. The higher quality of imported products has raised demand and increased profitability in the region (Pane & Patunru, 2023).

Table 1 Bali Balance of Trade 2020 - 2024

<i>(Expressed in million USD)</i>					
Exp/Imp	2020	2021	2022	2023	2024
Export	456.4	508.2	617.5	581.0	582.6
Import	83.9	35.9	82.7	122.1	146.4
BOT	372.5	472.3	534.8	458.9	436.2

Source: (BPS-Statistics Indonesia Bali Province, 2024)

From 2020 to 2024 (until November), Bali Province consistently maintained a positive trade balance, with export values exceeding import values. However, when analyzed for value fluctuations, the trade balance exhibits considerable volatility. In 2020, during the Covid-19 pandemic, there was a notable decrease in the trade balance. Subsequently, in the next two years, specifically 2021 and 2022, it experienced a surge. Imports were predominantly from the Asian region (non-*ASEAN*) at 46.75%, followed by the American region at 19.36%, the European region at 14.19%, the *ASEAN* region at 12.58%, Australia and Oceania at 7.08%, and the African region at 0.04% (BPS-Statistics Indonesia Bali Province, 2024).

(The Office of Cooperatives Small and Medium Enterprises Bali Province, 2024) reported that there are 36,837 businesses classified as *SMEs* in the Province of Bali, distributed across nine regencies or municipalities, with Gianyar Regency having the highest concentration. According to data from the Denpasar Customs and Excise Office, from 2017 to 2024, 18 decrees have been issued to determine the availability of Export-Oriented Facilities to small and medium industrial firms (*KITE IKM* facilities). Industries that have sought and received *KITE IKM* facilities at the Denpasar Customs and Excise Office include handicrafts, silver jewelry, wig manufacturing, tent production, ready-made garments, and boat building.

The primary export commodities of Bali Province are fish and shrimp products, indicating that the marine and fisheries sector is the predominant industry in Bali. Nevertheless, there are notable export commodities, such as jewelry or gemstones, ready-made garments, and timber products. The third most prominent commodities are products from *MSMEs* in Bali Province, primarily consisting of silver jewelry, souvenirs including beach hats, bracelets, and necklaces, ready-made

Table 2 Most Export Commodity in Bali 2020 – 2023
 (Expressed in USD \$)

Commodities	2020	2021	2022	2023
Fish and Shrimp	122,474,509	136,572,269	147,967,445	140,486,726
Jewelry / Gems	58,566,275	62,631,536	73,721,928	72,898,919
Non-Knitted Apparel	51,633,477	59,367,858	102,859,558	83,662,260
Wooden Products	33,379,636	37,647,176	43,167,716	44,764,809
Furniture	25,470,362	29,084,035	32,012,081	34,918,940
Knitted Items	23,823,571	29,412,358	29,245,751	27,782,406

Source: (BPS-Statistics Indonesia Bali Province, 2024)

apparel such as beach scarves and swimwear, as well as wooden items like furniture and carved wood.

On a national scale, Indonesia's engagement in international trade necessitates focused attention on export and import activities. Sustainable development has become pertinent to the maritime and port industries, supporting and facilitating continued growth in trade (Lam & Yap, 2019). Through export activities, a nation acquires foreign currency from global commerce. A country with an export value exceeding its import value will experience a favorable trade balance.

The government is responsible for cultivating, guiding, directing, safeguarding, and promoting a favorable economic environment to facilitate corporate growth and to serve as a catalyst for business development. Economic governance is manifested through the issuance of government laws designed to enhance domestic economic activity and interactions among economic agents, thereby expanding market share in the international arena and augmenting local exports. The government encourages *MSMEs* to expand beyond domestic markets by providing export promotion programs, trade fairs, and market research assistance (Shankar, 2024).

The government's provision of fiscal facilities aims to facilitate domestic industrial entrepreneurs in increasing their output, thereby contributing to the national economy—particularly in the export sector. The government's policy framework is a significant consideration for domestic entrepreneurs in formulating their export and import strategies, necessitating a customized policy approach (Gumilar, Suyadi, & Agusti, 2019).

The Ministry of Finance has various empowerment programs for *SME* actors (Febriyani, Leksono, Zulfikar, & Putra, 2023). In carrying out its duties and functions, the Ministry of Finance aligns with contemporary developments,

adopting the concepts of innovative public administration within entrepreneurial bureaucracy. The Ministry has implemented measures to enhance competitiveness and facilitate *MSMEs*, such as offering fiscal incentives to entrepreneurs. The fiscal incentives available to *MSMEs* include *KITE IKM*, as stipulated in the Regulation of the Minister of Finance number 177/PMK.04/2016, which pertains to the exemption of import duties and the non-collection of Value Added Tax or Sales Tax on Luxury Goods for imports of goods, materials, or machinery conducted by small and medium enterprises for export purposes.

Research by Wulandari, Junaidi, K, & A Micahel (2018) indicated that fiscal allowances offered by the Directorate General of Customs and Excise enhance economic growth and domestic trade, thus boosting exports. This analysis suggests that the availability of *KITE IKM* facilities tends to enhance both exports and imports. The evolution of *SMEs* indicates persistent growth of entrepreneurial spirit, significantly influencing socioeconomic conditions such as employment, community empowerment, and the accelerating pace of the economy. This, in turn, increases export activities carried out by *SMEs* stemming from the processing of imported raw materials.

Findings by Muchtar & Suganda (2021) indicated that internal obstacles within Customs included insufficient efforts to socialize and educate stakeholders about *KITE IKM* facilities, inadequate governance or documentation practices, and uneven distribution of knowledge and technical skills among employees. External challenges comprised a lack of understanding among business actors regarding the procedures and regulations associated with *KITE IKM* facilities, and ineffective synergy and strategic coordination with relevant regional institutions. The utilization of *KITE IKM* facilities by *SMEs* could result in significant cost savings; therefore, a comprehensive and in-depth analysis of the impact of these facilities in relation to the objectives the government aims to achieve by their provision is essential.

A phenomenon exists wherein, from the perspective of facilitating the enhancement and development of *MSME* enterprises, Bali Province exhibits notable deficiency of interest, as evidenced by the limited number of *SMEs* applying for and obtaining *KITE IKM* facilities relative to the volume of active businesses. Among the 36,837 *MSMEs* in Bali Province, only a limited number have sought and obtained *KITE IKM* facilities. Several sectors that received *KITE IKM* facilities have never utilized them, while others have ceased usage. Therefore, it is essential to conduct a thorough examination of the execution of the *KITE IKM* facilities provision policy and its effects on *SMEs* at the Denpasar Customs and Excise Office.

This study aims to elucidate the phenomenon of underutilization of *KITE* facilities by small and medium enterprises. The findings are intended to assist the government and stakeholders in identifying alternative solutions to existing issues and serve as supplementary considerations in policy formulation, thereby enhancing effectiveness and efficiency in benefiting small and medium industries. Ultimately, this will foster sustainable economic growth, job creation, labor absorption, and community welfare.

RESEARCH METHOD

To achieve the established purpose and fulfill the objectives defined for this study, a qualitative method was employed. Based on the formulation of the problem and the research objectives proposed—namely, to explore in depth the implementation of the provision of *KITE IKM* facilities at the Denpasar Customs and Excise Office and the impact of the provision of *KITE IKM* facilities for small and medium industrial enterprises—a qualitative approach was deemed the most appropriate for this research.

Primary data were obtained through questionnaires, semi-structured interviews with participants selected using purposive sampling, and observations. The participants included officials from the Denpasar Customs and Excise Office responsible for directly serving *KITE IKM* facilities, as well as employees or staff from *SMEs* involved in import-export and customs clearance processing. Secondary data, sourced from relevant agencies, consisted of annual government reports, internal data, pertinent regulations, literature from official websites, and studies from reputable journals.

KITE IKM facilities offer numerous advantages; however, when juxtaposed with the volume of business activities in Bali Province and the diversity of *SME* products, enterprises possessing *KITE IKM* facilities remain exceedingly limited. In addition, some enterprises with *KITE IKM* facilities have never utilized these facilities, prompting the use of a qualitative research method with a phenomenological approach for this study.

The phenomenological approach seeks to elucidate the significance of experience through consciousness shared across multiple individuals in natural settings, while avoiding constraints in interpretation. Researchers suspend judgments about emotions until a foundation is established—a process known as *epoché*. This temporal phase helps differentiate the phenomenon from the researcher's interpretation, allowing for a clearer understanding of how individuals assign meaning to their experiences and life events (Abdussamad, 2021).

RESULT AND DISCUSSION

KITE IKM facilities, designed to assist *SMEs* primarily to enhance export activities, aligns with the objective of DGCE, trade facilitator. DGCE enhances domestic industry growth by offering precise customs and excise facilities. According to data from the Ministry of Cooperatives and *SMEs*, *MSMEs* account for 57% of Indonesia's gross domestic product (GDP), employ 97% of the workforce, and contribute 16% of national exports. The DGCE Work Units in Indonesia are responsible for the supply of *KITE* Facilities (Suryantini, 2022).

The provision of *KITE IKM* facilities in Bali Province is under authority of Denpasar Customs in accordance with the Regulation Number 183/PMK.01/2020 concerning Amendments to the Regulation of the Minister of Finance Number 188/PMK.01/2016 concerning the Organization and Work Procedures of the Vertical Agency of the Directorate General of Customs and Excise. According to documentation data acquired by officials in the Customs and Excise Service Section VII, which oversees *KITE IKM* facilities, as of 2024, 18 *SMEs* had received Ministerial Decree as beneficiaries of *KITE IKM* facilities.

SMEs with KITE IKM Facilities in Bali

Most of the companies received KITE IKM facilities at the Denpasar Customs and Excise were 14 Medium Enterprises 4 Small Enterprises. This showed that the medium industry had greater potential than the small industry. Medium Enterprises tend to have a larger production capacity, which allowed them to focus more on exports and reached a wider market. Medium Enterprises had a greater opportunity to grow and expand production capacity and export markets, especially in garment, souvenir, and silver sectors which had high competitiveness (Denpasar Customs, 2024).

Garment products represented one of the most rapidly expanding sectors in Bali, with numerous items targeted at the export market. Balinese garment products with the label “Made in Bali” had a higher demand, both for domestic and international markets, presenting significant prospects for export market expansion. Silver and souvenirs were quintessential Balinese commodities that possessed distinct allure in the global market particularly within the tourism and handicraft industries, gave significant added value and were frequently desired by international tourists, enabling industry to enhance the nation's foreign exchange through exports. Balinese silver and souvenir items are distinguished by the quality and uniqueness craftsmanship, offering a competitive edge in the global market.

Commodities produced by SMEs benefiting from KITE IKM facilities in Bali are notably varied. The predominant categories of garment products included swimwear, activewear, and sportswear manufactured by five SMEs. Silver jewelry craft products, which are quite famous at Sukawati area in Gianyar Regency are also a contributor to the results of finished goods created by SMEs which quite a lot, followed by other souvenir products. Moreover, there exist SMEs that manufacture finished products such as wigs, luxury tents, boats, cosmetics, and fermented cocoa.

The variety of products manufactured by SMEs in Bali demonstrates significant economic potential within the small and medium industry sector, particularly in bolstering the tourism and export industries. Items such as crafts, souvenirs, and silver were intricately linked to the demands of the tourist market, particularly in Bali, an international tourism hub. Products like apparel, tents, and components exhibit industrial activity capable of satisfying the demands of both domestic and foreign markets. To optimize this potential, assistance in enhancing production capacity, elevating quality, and enabling market access is essential for SMEs to compete in global market.

SMEs companies benefiting from KITE IKM facilities in Bali were distributed among 6 towns or regencies. Gianyar Regency, renowned for its handicrafts, particularly carvings and silver jewelry, hosted 7 SMEs. Badung Regency and Denpasar City, possessing sufficient trained labor potential, hosted 5 and 3 SMEs with KITE IKM, respectively, mostly engaged in the production of swimwear and other clothing products. In Bangli Regency, there exists 1 Medium Enterprises that manufactured wigs; in Tabanan Regency, 1 Small Enterprise produced boats; and in Jembrana Regency, there were 1 Small Enterprise specialized in fermented cocoa production.

Gianyar and Badung, the headquarters of creative industry activities in Bali especially handicrafts, textiles, and souvenirs, were in great demand by both domestic and international markets. KITE IKM facilities in these regions enabled local entrepreneurs to capitalize on the convenience of importing raw materials and accessing export markets. Badung, encompassing renowned tourist destinations like Kuta, Seminyak, and Canggu, along with Gianyar, noted for its arts and crafts locales such as Sukawati and Ubud, possessed superior infrastructure, accessible global markets, and connectivity that facilitates exports. SMEs with KITE IKM facilities in these two regions could further stimulate the growth of local creative and manufacturing businesses rooted on tourism and the arts, which aligned closely with the features of Bali.

Denpasar, the capital city of Bali province, hosted 3 beneficiaries of KITE IKM facilities. Denpasar, as a pivotal site as it serves as the hub for government, commerce, and logistics in Bali offered benefits in accessing governmental policies and facilitates the acquisition of logistical support and resources. Denpasar also had a substantial domestic market for indigenous products and possessed a more robust infrastructure than other regions in Bali, featuring an international airport that facilitates the efficient transportation of goods for SME exporters.

The presence KITE IKM facilities in Jembrana, Bangli, and Tabanan, demonstrated an initiative to ensure equitable access to KITE IKM facilities, hence mitigating economic inequities and fostering industrial development in regions distant from Bali's primary economic hubs. The allocation of these amenities in more isolated regions offered prospects for local entrepreneurs beyond the primary tourism zones to innovate, generated employment, and enhanced the village economy.

Types of Capital Investment in SMEs with KITE IKM Facilities

The majority of SMEs with KITE IKM facilities in Bali were financed by Domestic Investment (PMDN), comprising 12 of the 18 current organizations. This indicated that sectors like cosmetics, souvenirs, and silver jewelry were predominantly influenced by local investment. The prevalence of 100% PMDN across numerous sectors demonstrated the robustness of domestic capital in Indonesia. Products funded by domestic capital, exemplify sectors capable of competing in both local and international markets, thereby contributing to the national economy through job creation and the advancement of local resource-based businesses.

Foreign Investment (PMA) underscored the significance of collaboration with foreign investors. Various sectors, including apparel and luxury tents, attract substantial international investment, particularly from wealthy nations like the United States, Sweden, and Switzerland. This foreign investment introduced technology, expertise, and access to worldwide markets, enhancing Indonesia's competitiveness in the global arena, particularly within the textile and fashion sectors.

Sectors associated with PMA ranging from 76% to 99% and extending to 100%, including silver jewelry and components, demonstrated the partnership between domestic and foreign capital that enhanced production efficiency and

product quality. Foreign investment from the Netherlands and Singapore in jewelry and component sector facilitated sharing of modern technology, enhancing the added value of Indonesian products and bolstering their position in the worldwide market.

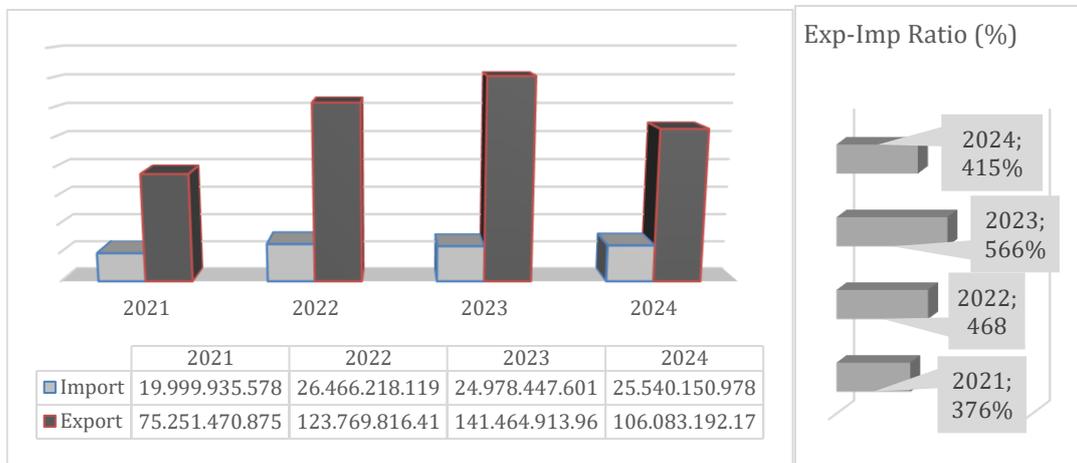
Foreign investment enabled companies to use global networks. This global engagement underscored the interdependence of international company activities, signifying a determinant that affects the attraction of foreign investment and the enhancement of economic growth within their respective sectors. It also indicated that some businesses in Indonesia, particularly the jewelry and technology sectors, were drawing foreign investors. Foreign investment frequently targeted products that adhere to international standards, thereby enhancing the quality of domestic production.

This revealed that the diversity of capital kinds in enterprises with KITE IKM facilities in Denpasar presented positive picture of potential of local sector. The prevailing PMDN established a robust foundation for local economic development, whereas PMA offered avenues for innovation and market proliferation. With appropriate support from the government and stakeholders, the collaboration between these two forms of capital would propel the advancement of a sustainable and competitive sector both nationally and internationally. This combination facilitated collaboration between domestic firms and international ones, promoting innovation and market expansion.

Impact of Increasing Export Foreign Exchange

Comparing the import value of raw materials and the export value of finished goods from companies benefiting from the KITE IKM facilities in Bali revealed intriguing dynamics within the medium and small industry sectors, particularly concerning international trade. In medium industry sector, the import value of raw materials accumulated to over 19 billion in 2021, with significantly changed in subsequent years. Nonetheless, the export value of finished goods from this sector exhibited notable figures, particularly for items such as components, souvenirs, and silver crafts, which made a considerable contribution to the Balinese economy.

Figure 1 Import - Export Ratio in Bali 2021 – 2024



Source: (Denpasar Customs, 2024)

Industries dependent on imported raw materials seemed to focus on high value-added products, evidenced by substantial export volumes, notwithstanding a fall in certain items in 2024. For instance, components and luxury tent items exhibited substantial import amounts in 2021 and 2022, with exports also reflecting notable figures in subsequent years. This indicated that these industries serve as the primary catalysts of the local economy, possessing significant potential in international market, notwithstanding the difficulties in managing raw material expenses.

In small industry sector, despite its significantly lesser contribution to import and export values relative to the medium industry, this sector exhibited noteworthy advancements. For instance, the export of boat building products and garment, ready-made apparel increased, albeit on a relatively modest scale. This signified the untapped potential for market expansion among small enterprises. This sector enhanced its market reach and improve the competitiveness of local products with more financial support and export facilities.

The analysis of import and export values in Bali revealed a reliance on raw material imports; nevertheless, the export sector of finished products significantly contributes more to the economy. The rising export values in 2022 and 2023 demonstrated the significant potential of medium industry sector to enhance the competitiveness of local products in global market. Dependence on imported raw materials posed a difficulty, particularly when volatility in international raw material prices impact production costs.

The sustainability and development of industries benefiting from KITE IKM facilities required significant focus in economic policy. The incentives should focus on enhancing efficiency in the raw material supply chain and bolstering the marketing capabilities of completed products. Additional assistance through training, enhancement of product quality, and access to international markets will

significantly bolster the competitiveness of these industries, hence facilitating the overall economic growth of Bali.

The government's role in facilitating SMEs remained crucial due to the significant demand for imported raw materials for export-ready final goods. The resources allocated to SMEs were anticipated to be employed effectively, thereby decreasing production costs and enhancing product competitiveness. SMEs would thereafter contribute to the nation's economic growth. The primary aim of offering these fiscal and procedural incentives was twofold: on a macroeconomic level, to enhance foreign exchange from exports, and on a microeconomic level, to augment production capacity and, consequently, improve labor absorption.

Examination of Profit and Loss Trends of KITE IKM Facility Beneficiary

The analysis of profit and loss statistics for enterprises utilizing KITE IKM facilities in 2022 and 2023 revealed a heterogeneous performance within the medium and small industry sector. The medium industry sector, encompassing a range of products including cosmetics, wigs, souvenirs, jewelry, and components, exhibited variable outcomes. Certain products, including cosmetics, wigs, and souvenirs, yielded substantial profits, whilst others, such as components and jewelry, incurred losses. Despite losses in certain categories, numerous enterprises had a favorable profit trajectory, indicating the possibility for a lucrative international market.

Despite incurring losses in 2022, the company attained a substantial profit of 2.11 billion in 2023 within the beauty products sector. Similarly, the wig and souvenir sector demonstrated consistent profitability, signifying ongoing expansion in global market demand. Conversely, jewelry and component items encounter significant hurdles, as jewelry reported a loss in 2023, following a profit in 2022. This result from demand changes or production challenges, necessitating a comprehensive study of the efficiency and competitiveness of these items.

The garment industry exhibited varied outcomes. Certain companies realized substantial gains, notably in the garment sector, which reported earnings in 2023, while others had losses. For instance, a corporation incurred a loss in 2023, suggesting issues with cost management or a decrease in foreign market demand. The garment industry in Bali was substantial, and issued within this sector necessitate enhancements in competitiveness and product quality to remain pertinent to global market trends.

The minor industrial sector, encompassing products like boats, fermented cocoa, and souvenirs, exhibited varied outcomes. In boats builder, while achieving profitability in 2022, there was a deficit in 2023. This indicated price volatility or increased raw material expenses. Cocoa items experienced a notable decrease in revenues, whilst the souvenir sector remains unassessed, suggesting ongoing instability in this domain. The primary issue for the small industry sector was enhancing competitiveness in the export market while simultaneously improving operational efficiency to increase resilience against market volatility.

Despite variances in profit and loss outcomes across goods and industries, this indicated significant possibility for enterprises utilizing KITE IKM capabilities to enhance their performance in the worldwide market. Nevertheless, issues such

as cost variability, shifts in market demand, and reliance on imported raw materials necessitated significant consideration. Policy support aimed at enhancing production efficiency, product diversification, and broader market access will significantly bolster the competitiveness of Indonesian products in the global marketplace.

These findings underscored the significance of adaptation and effective management within the SME sector that use KITE IKM facilities. Certain sectors, including cosmetics and wigs, demonstrated strong performance due to targeted investment and operational efficiency. Nonetheless, various other sectors, including silver jewelry and components, encountered more significant difficulties in sustaining continuous earnings. The losses incurred by many industries indicated the necessity for enhanced tactics in cost management, product quality improvement, and adaptation to the evolving dynamics of the global market.

In light of these findings, it was crucial for SMEs to enhance their competitiveness by fully utilizing KITE IKM facilities and considering external factors that affected market demand. A comprehensive awareness of global market conditions and consumption trends would significantly aid in developing effective strategies to maximize the potential of current sectors. Moreover, sectors facing losses required additional support, including enhancements in skills and technology training, to augment their productivity and operational efficiency.

Enhanced review and monitoring of underperforming sectors would assist the government and stakeholders in developing more effective policies. With appropriate support, struggling sectors recuperated and enhanced SMEs performance. Conversely, industries with strong performance should be incentivized to persist in innovation and market expansion to ensure long-term sustainable growth.

Upscaling Investment Value

The rise in investment from enterprises benefiting KITE IKM facilities in Bali markedly influenced the local economy, particularly in enhancing production capacity and facilitating access to global markets. Investment in industries such as machinery, equipment, vehicles, and buildings has enabled numerous SMEs to enhance their operational capability. In 2023, the cosmetics and silver jewelry sectors in Bali experienced a significant rise in investment, potentially enhancing the competitiveness of local products in the global market. Investing in machinery and equipment enhanced production efficiency, hence reducing costs and improving product quality.

Supplementary investment also enhanced the infrastructure sector, including the development of new edifices and manufacturing facilities. This not only generated new employment opportunities but also fortified the industrial ecosystem in Bali, hence attracting increased investment and expediting regional economic development. The substantial investment in the construction and machinery sectors within industries such as souvenirs, jewelry, and textiles exemplified advancements in digital transformation and automation, which expedited production processes and enhanced the competitiveness of Balinese SME products.

Despite substantial gains in investment in specific industries, certain sectors had lower and static investment values. The garment and textile industry experienced a reduction or standstill in investment growth over several years, potentially indicating issues in expanding production capacity or difficulties in adapting to shifts in market demand. This indicated the necessity for a more targeted strategy and more assistance for industries that had not completely leveraged the potential of the KITE IKM facilities.

KITE IKM facility offered significant incentives for small and medium firms to access international markets, particularly amid intensifying global competition. By enhancing production capabilities and elevating product quality, SMEs in Bali

Table 3 Profit/Loss SMEs KITE IKM in Bali 2022 – 2023

(Expressed in IDR)

SMEs	Profit/Loss		Investment Added		
	2022	2023	2022	2023	
Medium	20.035.106.278	25.432.659.058	4.471.088.419	29.414.749.104	Building, Vehicle, Machine
Small	291.999.714	721.350.003	1.043.716.517	795.000.000	

Source: (Denpasar Customs, 2024)

could increase their market share and attain expanded export potential. Enhancing infrastructure and production facilities would augment Bali's worldwide competitiveness, hence expanding economic opportunities for the region.

The supplementary investment from the KITE IKM facilities demonstrated significant potential to stimulate economic growth in Bali, particularly within the SME sector. Investments focused on enhancing manufacturing capacity and product quality, including machinery, vehicles, and infrastructure, positively influenced the competitiveness of Balinese products in the global market. Nonetheless, obstacles persist, particularly for industries that had not completely leveraged these resources. To further these beneficial effects, additional initiatives were required to promote market access, skills training, and technology assistance enabled Balinese SMEs to swiftly adjust to the demands of a dynamic global market.

It was essential for the government and stakeholders to persist in monitoring and assessing the efficacy of the KITE IKM program in fortifying the SME sector in Bali. Effective monitoring facilitated the identification of sectors necessitating further involvement, thereby ensuring that supplementary investment yields optimal benefits for the local economy. Prioritizing support for technological development and innovation was very powerful to ensure that Balinese SMEs not only depend on production capacity but also generate new and sustainable products. Despite problems related to the uneven distribution and usage of investment across sectors, the KITE program owned the potential to serve as a significant catalyst for improving the SME sector in Bali and promoting more inclusive and sustainable economic growth.

Overall, this extra investment data revealed that although some organizations struggle, many took sensible efforts to invest in capacity and technology. Companies that adapted and invested efficiently in new infrastructure and

equipment made a greater chance of competing in the market and increasing their performance in the future. The success of these investments mostly hinged on the companies' capacity to adapt to market dynamics and mitigated the risks linked to economic and industrial fluctuations.

The significant disparities in investment results illustrated each company's reaction to market conditions, strategic planning, and risk management strategies. These movements offered insights into financial health and indicated how organizations were strategizing for future growth in changing economic situations.

Labor Absorption and Surrounding Business Actors

According to labor absorption data from enterprises utilizing KITE IKM facilities in Bali, the medium-sized industrial sector exhibited generally steady workforce from 2022 to 2024, despite a little decline in certain product categories. In wig goods, silver jewelry, and components, a modest reduction in the workforce, enhanced production efficiency or fluctuations in market demand. Concurrently, sectors such as luxury tents, garments/textiles, and cosmetics exhibited modest rise in workforce numbers, signifying expansion in these industries. The medium-sized industrial sector continued to absorb substantial labor force, generating numerous

Table 4 SMEs KITE IKM Labor Absorption
2022-2024

SMEs	2022	2023	2024
Medium	1.545	1.525	1.479
Small	105	105	97

Source: (Denpasar Customs, 2024)

employment chances for local individuals in the export goods production industry.

Moreover, small-scale industrial sectors, including boat building, fermented cocoa production, and souvenir manufacturing, contributed to labor absorption, albeit with a lower workforce relative to the medium-sized industrial sector. Nonetheless, tiny industries enhanced product diversity for export and bolster the local economy surrounding the enterprise. In boat building business, which experienced modest rise in workforce numbers in 2024, indicated the demand for certain local products, whilst souvenir items maintain consistent labor absorption, bolstering the swiftly expanding tourism sector in Bali.

Presence of enterprises benefiting from KITE IKM facilities positively influenced the Balinese economy by generating reasonably stable employment in both medium and small industry sectors. Furthermore, these organizations facilitated the formation of new economic entities in sectors such as trade, housing, and transportation. This fostered symbiotic business environment and enhances the competitiveness of local economy, fortifying the framework of the Balinese economy as it became increasingly integrated with the global market.

The data indicated substantial effect on the local economy around the companies benefiting from the KITE IKM facilities, particularly in fostering new enterprises in commerce, housing or accommodation, food and beverages, and transportation sectors. Entities in the commerce sector, including souvenir and

garment/textile enterprises, proliferated, accompanied by various categories of families and small companies that expanded alongside the industrial sector around the corporation. The souvenir sector illustrated the emergence of commercial entities expanding at both household and small business levels.

Advancement of these economic sectors demonstrated that enterprises benefiting from the KITE IKM facilities served as economic catalysts, fostering the growth of the local business environment. The formation of diverse business entities surrounding the organization not only fostered economic growth but also enhanced competitiveness and generates broader job prospects for the local population. Consequently, the local economy became more vibrant and interconnected with many sectors, both directly and indirectly associated with the current industry.

Table 5 Business Fields Due to SMEs KITE IKM Existence in Bali

SMEs	Commerce	Accommodation	Food & Beverages	Transportation
Medium	112	88	150	58
Small	86	47	60	28

Source: (Denpasar Customs, 2024)

Consequences of Facility Elimination

An analysis of the impact elimination of KITE IKM facilities indicated that this policy alteration substantially influenced SMEs in many economic sectors. The primary effect observed was heightened commercial competitiveness, particularly on an international scale, affecting nearly all categories of products, including cosmetics, jewelry, garments, and souvenirs. The absence of customs facilities could obstruct the movement of commodities, leading to elevated manufacturing costs and diminished corporate earnings. This would compel these organizations to encounter challenges in competing inside the worldwide market, thus impacting their financial performance.

Enterprises experienced an escalation in production expenses. Industries like garments, souvenirs, and tents indicated heightened operational expenses as the primary impact. Inadequate KITE IKM facilities compelled enterprises to incur supplementary expenditures in distribution of goods and raw resources, potentially diminishing profit margins. Nonetheless, certain companies, particularly in the cosmetics and jewelry industries, perceived this influence as neutral or negligible on the sustainability of their operations.

Corporate reactions to the elimination of customs facilities differed based on the sector type and their reliance on exports and imports. Some SMEs opted to persist in Indonesia despite challenges by employing cost efficiency measures or reducing their workforce as a form of adaptation. Conversely, enterprises in the garment and souvenir industries contemplated relocating their operations to other nations and ceased activities whether the repercussions on business continuity in Indonesia became excessively detrimental.

When asked about the impact would be for companies if KITE IKM facilities was abolished, comments SMEs interviewees included:

“Business competition, especially at the international level, would be increasingly difficult, company profits would decrease, production costs would be increase, and the flow of goods in and out would be hampered”

Furthermore, when asked what the company would do if the KITE IKM facility was removed by the government, most of companied comments:

“The company would carry out cost efficiency by reducing the number of employees”

Meanwhile, for SMEs whose capital were PMA, most of them answered:

“The company would move its business activities to another country like Vietnam and Thailand”

The elimination of KITE IKM facilities would instigate substantial alterations in a company's operating plan, particularly regarding cost efficiency, staff reduction, or business relocation. Consequently, the government should reevaluate this policy by assessing its potential effects on the competitiveness of the domestic industry and assuring the availability of alternative solutions to alleviate the burden on impacted enterprises.

Insight: System Efficiency, Regulatory Awareness, and Service Improvements

Based on the questionnaire to SMEs as KITE IKM users, there were several suggestions regarding the provision of KITE IKM facilities. The most dominant input was related to regulatory certainty and application system improvements. Comments from interviewee included:

“Frequent the internalization and socialization of regulations to stakeholders and in case certain condition is a need for relaxation regulations”

“System and application repairs, procedural administrative convenience”

A primary concern was the necessity for enhanced system or application and network upgrades. Numerous organizations, particularly in the cosmetics, jewelry, and garment industries, advocated for enhanced efficiency, stability, and user-friendliness in the systems and applications utilized, CEISA 4.0 KITE in the administrative and procedural procedures. This will expedite the process and mitigate administrative errors that impact company operations.

There was a substantial necessity to enhance the internalization and socialization of laws, particularly within the garment and jewelry industries. Numerous organizations expressed concerns regarding insufficient comprehension and awareness of the relevant legislation, potentially leading to uncertainty in fulfilling the criteria or effectively leveraging the KITE program. Consequently, enhanced socialization and more systematic training would significantly aid organizations in achieving regulatory compliance more efficiently and expeditiously.

The enhancement of services and oversight garnered particular focus from many companies, including those in the cocoa fermented product and cosmetics industries. The company anticipated that government services associated with KITE will exhibit increased responsiveness, alongside enhanced oversight to

eliminate disparities in program implementation. In this instance, multiple enterprises underscored the need for flexibility and regulatory certainty, ensuring that existing policies remain unchanged to provide stability for business operators, as sought by firms in the component and tent industries. The primary objectives for enhancing the KITE and KITE IKM programs in the future were to augment system efficiency, socialize rules, and refine services and oversight.

CONCLUSION

The study of *KITE IKM* facility beneficiaries in Bali reveals a complex *SME* ecosystem facing challenges such as high raw material costs, market volatility, and inconsistent profits, yet demonstrating strong growth potential. Medium industries showed steady profitability through exports but require improved cost control, while small industries exhibited global market potential, needing specialized support in product development and market access. Export diversification in souvenirs and textiles presents new opportunities, though these sectors require targeted marketing assistance and quality improvements to compete internationally. Investment patterns varied significantly: while cosmetics and jewelry sectors are expanding, garments remain stagnant, indicating the need for targeted investment strategies focusing on automation and digital transformation to boost competitiveness.

Both medium and small enterprises significantly contribute to local employment, with medium businesses maintaining stable workforces, and small industries such as boat-building demonstrating consistent labor absorption. The *KITE* initiative proves vital for economic integration by stimulating ancillary businesses in transportation and retail. However, performance varies considerably across sectors—while cosmetics thrive, silver jewelry faces challenges, underscoring the need for better cost management and production efficiency. The potential withdrawal of customs facilities poses serious risks, potentially increasing production costs and diminishing competitiveness. Participant feedback highlights the urgent need for system improvements, regulatory clarity, and government support to reduce administrative burdens and maximize program benefits. Strengthening policy support, enhancing operational efficiency, and providing compliance training would help create a more conducive environment for Bali's *SMEs* to sustain growth and maintain global competitiveness.

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