

# INNOVATIVE MSME DEVELOPMENT AND CREATIVE ENTREPRENEURSHIP POLICIES: A NEW PATH FOR THE LAMONGAN PEOPLE'S ECONOMY TO RISE TO A HIGHER LEVEL

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## Abstract

UMKM and creative entrepreneurs are the lifeblood of the Indonesian economy. However, the reality on the ground shows that the majority of UMKM remain micro-scale. Most tend to be subsistence, operate in the informal sector, are not connected to broader supply chains, have minimal access to formal financing, and are highly vulnerable to external shocks. Therefore, a method is needed to emphasize that regional economic independence is determined more by innovative local policies, strong social relationships, and cross-actor collaboration, rather than simply waiting for large investments. This research uses a qualitative descriptive approach. Research techniques included interviews, focus group discussions, documentation studies, and observations. The findings suggest that to create sustainable growth, innovation and productivity must be the primary focus. Without encouragement to innovate and building a strong supporting ecosystem, MSMEs risk stagnation. To achieve this, three essential foundations must be met: local institutions that support a conducive business climate, capacity and innovation to increase competitiveness and professionalism, and relationships between local actors that strengthen social networks and locally-based innovation capacity.

**Keywords:** : *UMKM, policy innovation, local institutions*

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) and creative entrepreneurship are the lifeblood of the Indonesian economy. These two sectors not only provide goods and services but also support the livelihoods of millions of people. More than 99 percent of businesses in this country are in the MSME sector, employing up to 97 percent of the workforce and contributing around 61 percent to gross domestic product. Therefore, discussing the future of the Indonesian economy means placing MSMEs and creative entrepreneurship at the forefront of development. It is no exaggeration to say that when crises strike, this sector acts as a cushion, keeping the wheels of the economy turning. However, the reality on the ground shows that the majority of MSMEs remain micro-scale. Most tend to be subsistence, operating in the informal sector, unconnected to broader supply chains, with minimal access to formal financing, and highly vulnerable to external shocks. Only a small percentage are able to grow significantly, penetrate broader markets, or transform into medium-sized or large enterprises. This situation creates what the World Bank calls a "missing middle": too many small businesses, but too few that scale up to become medium or large enterprises capable of competing in regional and global markets (World Bank, 2023).

The World Bank's (2023) report, "Accelerating Growth through Entrepreneurship, Technology Adoption, and Innovation," emphasizes that economic resilience cannot be supported solely by consumption. Sustainable growth must be driven by innovation, productivity, and entrepreneurial dynamism. This finding is relevant for Indonesia, including Lamongan. Without the drive for innovation and a supportive ecosystem, MSMEs risk stagnation. Furthermore, micro and ultra-micro businesses face three main challenges: marketing, institutionalization, and capital. These three factors determine whether a business can survive, thrive, or simply sink amidst competition. Therefore, the sustainability of micro businesses cannot be left to chance. Three crucial foundations must be in place. First, local institutions. Local rules, social norms, and regulations shape the business climate at the community level. Clear rules provide certainty, while social norms that encourage cooperation prevent entrepreneurs from feeling alone. If this climate is healthy, MSMEs will be more confident in taking action and no longer be haunted by uncertainty. The second foundation is capacity and innovation. Micro-enterprises that rely solely on old methods will struggle to thrive. Capacity is not just about production skills, but also the ability to

introduce new approaches: innovative products relevant to market needs, creative marketing strategies, and more professional institutional governance. In an era of global competition, innovation is the key differentiator between businesses that merely survive and those that can move up a level. The third foundation is the relationships between local actors—regional government, businesses, and communities. Michael Storper (1997) in *\*The Regional World: Territorial Development in a Global Economy\** emphasized that the key to a region's success lies not solely in infrastructure or economic incentives, but in the quality of the social relationships built. Trust, local knowledge, and the capacity for innovation that grow together are equally important assets. When these relationships are strong, MSMEs no longer operate in isolation but become part of a mutually supportive ecosystem. In the context of Lamongan, these foundations find their relevance. Through the Young Entrepreneur Success program, the local government is encouraging the emergence of a new creative economy while facilitating capital for youth-led entrepreneurial groups. This initiative not only creates new entrepreneurs but also strengthens the regional economic growth trend. Data shows that Lamongan's economy grew 3.43 percent in 2021, increasing to 5.56 percent in 2022, stabilizing at around 4.28 percent in 2023, and rising to 4.81 percent in 2024. These figures demonstrate that MSMEs are a driving force for regional development. The resilience of Lamongan's MSMEs also reflects what Storper (1997) calls untraded interdependencies: relationships between economic actors that are not directly regulated by market mechanisms but rather arise from collaboration, trust, and community solidarity. From these social interactions, relational assets emerge in the form of collaborative networks, reputation, and trust, which strengthen the capacity for locally based innovation.

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## **LITERATURE REVIEW**

### **METHOD**

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The World Bank's (2023) report, "Accelerating Growth through Entrepreneurship, Technology Adoption, and Innovation," emphasizes that economic resilience cannot be supported solely by consumption. Sustainable growth must be driven by innovation, productivity, and entrepreneurial dynamism. This finding is relevant for Indonesia, including Lamongan. Without the drive for innovation and a supportive ecosystem, MSMEs risk stagnation. Furthermore, micro and ultra-micro businesses face three main challenges: marketing, institutionalization, and capital. These three factors determine whether a business can survive, thrive, or simply sink amidst competition. Therefore, the sustainability of micro businesses cannot be left to chance. Three crucial foundations must be in place. First, local institutions. Local rules, social norms, and regulations shape the business climate at the community level. Clear rules provide certainty, while social norms that encourage cooperation prevent entrepreneurs from feeling alone. If this climate is healthy, MSMEs will be more confident in taking action and no longer be haunted by uncertainty. The second foundation is capacity and innovation. Micro-enterprises that rely solely on old methods will struggle to thrive. Capacity is not just about production skills, but also the ability to introduce new approaches: innovative products relevant to market needs, creative marketing strategies, and more professional institutional governance. In an era of global competition, innovation is the key differentiator between businesses that merely survive and those that can move up a level. The third foundation is the relationships between local actors—regional government, businesses, and communities. Michael Storper (1997) in *\*The Regional World: Territorial Development in a Global Economy\** emphasizes that the key to a region's success lies not solely in infrastructure or economic incentives, but in the quality of the social relationships built. Trust, local knowledge, and

the capacity for innovation that grow together are equally important assets. When these relationships are strong, MSMEs no longer operate in isolation but become part of a mutually supportive ecosystem. In the context of Lamongan, these foundations find their relevance. Through the Young Entrepreneur Success program, the local government is encouraging the emergence of a new creative economy while facilitating capital for youth-led entrepreneurial groups. This initiative not only creates new entrepreneurs but also strengthens the regional economic growth trend. Data shows that Lamongan's economy grew 3.43 percent in 2021, increasing to 5.56 percent in 2022, stabilizing at around 4.28 percent in 2023, and rising to 4.81 percent in 2024. These figures demonstrate that MSMEs are a driving force for regional development. The resilience of Lamongan's MSMEs also reflects what Storper (1997) calls untraded interdependencies: relationships between economic actors that are not directly regulated by market mechanisms but rather arise from collaboration, trust, and community solidarity. From these social interactions, relational assets emerge in the form of collaborative networks, reputation, and trust, which strengthen the capacity for locally based innovation. Lamongan's experience also shows the truth of Andrés Rodríguez-Pose's (2017) analysis, which emphasizes that regional economic independence is more determined by innovative local policies, strong social relations, and cross-actor collaboration, rather than simply waiting for the entry of

## **RESULTS AND DISCUSSION**

### **MSMEs Upgrade and a Region-Based Economy**

Strengthening MSMEs is no longer an option, but rather a necessity in facing the ever-changing economic dynamics. The Lamongan Regency Government has taken this need seriously and addressed it through various concrete steps: implementing region-based structural transformation, enhancing business capabilities, and providing facilities to make Small and Medium Enterprises (SMEs) and MSMEs more competitive. Empowerment programs have been rolled out, ranging from providing business facilities and access to capital, to mentoring and training. The goal is simple yet crucial: to ensure that MSMEs not only maintain their business continuity but also grow in a targeted manner, are managed more professionally, are sensitive to market trends and preferences, and are ready to respond to new challenges arising from technological advances and global business dynamics.

As Michael Storper (1997) explains, the success of local economic development depends not only on capital and natural resources, but primarily on social relations, local innovation, institutional capacity, and the strength of networks formed within the region itself. This principle is the one the Lamongan Regency Government adheres to when registering more than 5,000 MSMEs and encouraging the legalization of their businesses. This step not only generates new economic statistics but also builds relational assets, a concept proposed by Storper about the intangible forces that underpin regional economies: trust, work habits, community solidarity, and knowledge exchange. In line with these principles, various MSME strengthening programs have been launched. The Ayo Ditumbasi program, the presence of the Lamongan Souvenir Mall (MOOLA), and market digitalization through the Lamongan Online Market (POL) application are a series of local government efforts to strengthen economic interactions based on local values and culture. Research by Hidayat *et al.* (2020) shows that entrepreneurial characteristics and government assistance significantly influence crisis management and MSME resilience.

Therefore, the Lamongan Regency Government is investing in strengthening institutional and social capacity: building networks between economic actors, establishing innovation incubators, and facilitating formal legal access. Providing 1,000 Business Identification Numbers (NIB) to 1,000 business actors, for example, not only increases legal certainty but also opens up opportunities for wider product distribution and provides a sense of security for business actors in carrying out their economic activities. In addition, the regional government assigns coordinators in each sub-district to collect and manage MSME data. Their duties are not only administrative but also part of a strategy to facilitate mentoring and empower MSME institutions. This way, the government can provide more targeted support. This approach aligns with Andrés Rodríguez-Pose's (2017) view in *Local and Regional Development*, which asserts that local economic resilience depends on the responsiveness of local governments to local strengths, such as production traditions, human resources, and entrepreneurial creativity.

### **Innovation and Efforts to Strengthen MSME Resilience**

Korber and McNaughton's (2018) research on entrepreneurial resilience confirms that continuous innovation is a prerequisite for strengthening micro-enterprise resilience. This principle is reflected in the Lamongan Regency Government's ongoing efforts to adapt and innovate to strengthen MSME institutions. Empowerment programs are not limited to providing business facilities but also include access to capital, guidance and mentoring, and education and training that hone production and managerial skills. With this approach, the local government strives to create resilient, innovative, and highly competitive MSMEs.

One of the guarantees provided by the Lamongan Regency Government is ensuring that business actors receive ongoing support to develop innovatively. This support has yielded tangible results. Since 2021, Lamongan MSME products have begun to penetrate modern retail chains such as Indomaret and Alfamart. Initially, there were only 16 culinary and specialty food products, but this has now grown to 27 MSMEs, with 55 products marketed in eight modern outlets in Lamongan. In addition, 17 small and medium enterprises (SMEs) with 38 products are available through the Alfamart network, while 10 small and medium enterprises (SMEs) with 17 products are available through Indomaret. The Lamongan Regency Government is also opening MSMEs access to the global market. Since 2022, 30 Lamongan businesses have achieved exports worth up to IDR 107 trillion. Exported commodities include woven fabrics, processed wood, fishery and meat products, shrimp, footwear, and plastic. In 2023, exports expanded even further. Snacks, fishery products, furniture, and footwear penetrated the markets of the United States, Saudi Arabia, Qatar, Dubai, Turkey, Malaysia, and various Asian and European countries. This demonstrates the strengthening resilience of MSMEs in global competition.

Another noteworthy innovation is the Lamongan Souvenir Mall (MOOLA). Professionally managed by creative young people from the Lamongan Creative Hub, MOOLA serves not only as a shopping center for Lamongan's signature products but also as a co-working space for young people looking to start businesses. The presence of MOOLA demonstrates how the regional government is developing a participatory economic ecosystem that connects local potential with market opportunities. This effort emphasizes that strengthening MSMEs is not just about production, but also about creating collaborative spaces that can encourage the growth of new entrepreneurs. Facts show that the core of business resilience is speed of access and information. This is where the role of the regional government becomes crucial, ensuring policy responsiveness in matching market needs with business actors. Furthermore, the government continues to facilitate the strengthening of the positive image of MSME products. Over its three years, the POL application served 3,598 customers, recruited 5,805 merchants, with a transaction value of IDR 1.24 billion. In 2024, POL's innovations propelled Lamongan into the TOP 99 Public Service Innovations in the Ministry of Administrative and Bureaucratic Reform's Public Service Innovation Competition (KIPP), and also received the Innovative Government Award (IGA) from the Ministry of Home Affairs. This achievement aligns with Gerry Stoker's (1998) view on governance and local economic development, stating that good development governance must prioritize participation, accountability, effectiveness, and responsiveness, especially at the local level. The government acts not only as a regulator but also as a facilitator and collaborator, capable of fostering partnerships between the public sector and local businesses. With data-driven policies, the government bridges the needs of MSMEs for access to technology, markets, and training, thus creating a more resilient and competitive ecosystem.

#### Young Entrepreneur Success: The Future of the Creative Economy in Lamongan

Lamongan Regency is dynamically moving towards establishing an inclusive and sustainable digital-based creative economy ecosystem. Through the Young Entrepreneur Success (YES) program, we are focusing on fostering millennial entrepreneurs, a group we believe is a crucial driver of regional economic transformation. The YES program is part of the Megilan Entrepreneur (Megpreneur) priority agenda, which targets the creation of one thousand new jobs annually and the creation of ten thousand new entrepreneurs. With this step, the Lamongan Regency Government is not simply assisting MSMEs but is actually building the foundation for local economic transformation based on innovation, technology, and the courage of the younger generation. Amidst the rapid flow of digitalization and global economic uncertainty, this strategy is increasingly relevant. We strive to present an economic development model that is not solely oriented toward the private sector.

#### CONCLUSION

Micro, Small, and Medium Enterprises (MSMEs) and creative entrepreneurs play a central role in the Indonesian economy. They are not just providers of goods and services, but also the livelihoods of millions of people. Contributing more than 61% to Gross Domestic Product (GDP), MSMEs are the backbone of the economy, especially during crises. However, the majority of MSMEs remain micro-enterprises, facing various challenges in marketing, institutionalization, and capital. This creates a gap between micro and medium enterprises, often referred to as the "missing middle," where too many small businesses exist but few grow into medium or large enterprises.

To create sustainable growth, innovation and productivity must be a primary focus. Without encouragement to innovate and building a strong supporting ecosystem, MSMEs risk stagnation. To achieve this, three essential foundations must be met: local institutions that support a conducive business climate, capacity and innovation to increase competitiveness and professionalism, and relationships among local actors that strengthen social networks



and locally-based innovation capacity. The Lamongan Regency Government is a clear example of how the MSME and creative entrepreneur sectors can thrive. Through various empowerment and innovation programs, such as Young Entrepreneur Success (YES) and Mall Oleh-Oleh Lamongan (MOOLA), as well as market digitalization facilities like the Pasar Online Lamongan (POL) application, the regional economy has undergone positive transformation. These programs not only support the structural strengthening of MSMEs but also build a mutually supportive ecosystem between the government, businesses, and the community. The resilience of MSMEs in Lamongan is also evident in their ability to penetrate the global market. Lamongan MSME products have been exported to various countries, demonstrating how innovation and empowerment strategies can strengthen global competitiveness. This initiative also exemplifies that local economic success depends not only on natural resources, but also on innovative local policies and strong social ties. It is important to remember that successful MSMEs not only survive but also thrive by boldly innovating, leveraging technology, and adapting to global market dynamics. Thus, MSMEs and creative entrepreneurs form the backbone of a more inclusive and sustainable economy, which in turn drives regional and national economic progress.

The Lamongan government, with its empowerment policies and programs, has proven that through strengthening capacity, innovation, and social networks, MSMEs can "move up a class", answer future challenges, and contribute more to the national economy.

## **RECOMMENDATIONS**

Recommendations needed to strengthen MSME development policies for upgrading include:

### **1. Improving Access to Banking and Formal Financing**

To address the capital challenges faced by MSMEs, it is necessary to increase access to formal financing with lower interest rates and simpler processes. The government can strengthen credit facilitation programs for MSMEs, such as People's Business Credit (KUR) and develop more flexible digital-based microfinance schemes to enable MSMEs to obtain capital for business expansion.

### **2. Developing MSME Capacity and Innovation**

One of the key factors for "upgrade" is the ability to innovate. Therefore, it is necessary to strengthen training focused on improving technical and managerial skills and knowledge, as well as product creativity. Business incubator programs, digital training, and entrepreneurship training should continue to be encouraged to help MSMEs increase their capacity and competitiveness. The Young Entrepreneur Success (YES) program, initiated in Lamongan, can serve as a model for other regions to facilitate young entrepreneurs in developing businesses with creativity and innovation relevant to market needs.

### **3. Digitalization of MSMEs**

MSMEs need to be encouraged to utilize digital technology, both in marketing and operations. Local governments can introduce digital platforms that enable MSMEs to market their products widely, such as the Lamongan Online Market (POL) application. Counseling on the use of social media and e-commerce platforms to enhance global marketing should also be a priority. This is crucial so that MSMEs not only survive in the local market but also compete internationally.

### **4. Improving Infrastructure Quality and Market Access**

To increase competitiveness, the government must strengthen infrastructure, such as providing distribution centers, exhibition spaces, and local markets that support MSME products. Programs like the Lamongan Souvenir Mall (MOOLA), which provides a space to showcase MSME products with a modern and professional concept, can serve as an example for strengthening access to local and global markets. Furthermore, facilitating MSMEs to participate in international exhibitions and providing a broader distribution network will help MSME products reach a wider consumer base.

### **5. Collaboration Between Economic Actors and Stakeholders**

Strengthening social networks between businesses, local governments, and communities is crucial for creating a mutually supportive ecosystem. The government can facilitate the formation of MSME clusters based on local strengths, allowing businesses to collaborate on product development and marketing. This concept, known as untraded interdependencies by Michael Storper, can help MSMEs overcome challenges by strengthening social ties and collaboration between economic actors.

### **6. Empowering MSMEs in Exports**

Export mentoring and facilitation programs for MSMEs must be strengthened. The government can provide global market information and guide MSMEs to meet international product quality standards. Given the success of Lamongan MSMEs in penetrating export markets, such as those achieved with culinary and fishery products, the

local government can expand export networks for more MSME products and provide support in logistics and export licensing.

**7. Strengthening Institutional and Legal Aspects**

To facilitate the growth of MSMEs, it is important to accelerate the business legalization process by providing easier access to obtaining a Business Identification Number (NIB) and product certification. Programs such as the provision of 1,000 NIBs to businesses in Lamongan are concrete examples that can be implemented in other regions to provide legal certainty to MSMEs. A simpler and more affordable legalization process will make MSMEs feel more secure and make it easier for them to access a wider market.

**8. Innovation in Government Services for MSMEs**

Local governments need to improve their responsiveness and efficiency in serving MSMEs. Public service innovation programs such as the Public Service Innovation Competition (KIPP) and the awards received by Lamongan demonstrate the importance of transparency, accountability, and participation in local economic development. The government can use data and technology to provide faster and more targeted services to MSMEs, from licensing to entrepreneurship counseling.

**9. Strengthening the Creative Economy Ecosystem**

As part of the creative economy, young entrepreneurs need to be given greater space to experiment and innovate. Utilizing collaborative spaces such as co-working spaces, which are also part of the Lamongan Souvenir Mall (MOOLA), is crucial for this.

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