

## ***Arisan* for diversifying financing sources for micro enterprises**

**Tona Aurora Lubis\*; Firmansyah; Sumarni; Maryati Ningsih**

Department of Management, Faculty of Economics and Business, Universitas Jambi,  
Indonesia

*\*To whom correspondence should be addressed. Email: tonalubis@unja.co.id*

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### **Abstract**

This study examines the role and impact of *arisan*, a widely practiced form of informal microfinance in Indonesia, in supporting micro-enterprises in Jambi City. *Arisan* has demonstrated significant potential to provide both financial and social benefits to its members. Data were collected through semi-structured interviews and participant observations involving 100 micro-enterprise owners actively participating in *arisan*, using a qualitative descriptive approach. The findings reveal that most participants joined *arisan* due to limited access to formal credit and a preference for its trust-based, community-centered approach. Economically, *arisan* contributes to increased business capital and facilitates business expansion. Socially, it fosters enhanced solidarity and strengthens relationships among members. The study concludes that *arisan* serves as an effective alternative funding source for micro-enterprises in Jambi, addressing gaps left by formal financial institutions. However, challenges such as trust issues and limited funds require attention to optimize its effectiveness as a sustainable financing mechanism.

**Keywords:** *Informal finance, Microfinance, Saving group*

**JEL Classification:** G21, O16, L26

### **INTRODUCTION**

Microfinance has emerged as an innovative solution for providing financial services to populations traditionally excluded from conventional financial systems, offering the lower middle-class alternative pathways to financing (Dagunga et al., 2020). These programs serve as critical tools for extending financial services to underserved communities (Hemtanon & Gan, 2021). By enabling access to micro-loans and unsecured microcredit, microfinance empowers low-income households and micro-entrepreneurs, addressing the limitations of conventional financial institutions that typically require collateral and cater to well-established clients (Zheng & Zhang, 2021). This flexibility positions microfinance uniquely to promote financial independence and economic inclusion among individuals without access to formal banking systems (Dahal & Fiala, 2020; Khan et al., 2021; Nguyen & Canh, 2021). Consequently, microfinance has become indispensable for fostering economic participation and growth in

underserved populations.

In Indonesia, micro-enterprises constitute the backbone of the economy, encompassing businesses valued at up to IDR 50 million or generating an annual income of up to IDR 300 million (Prijadi et al., 2020). These enterprises significantly contribute to economic growth by creating employment opportunities and supporting local markets. As of 2023, approximately 66 million micro-enterprises account for 61% of Indonesia's GDP and employ around 97% of the workforce, underscoring their critical role in the national economy (Sohns & Diez, 2019). Despite their importance, many micro-enterprises face limited access to financial institutions, highlighting the essential role of both formal and informal financing in supporting their growth and sustainability (Batrancea et al., 2022). Bridging this financial gap is crucial for ensuring the stability of micro-enterprises, which play a central role in Indonesia's economic resilience and development (Clement, 2022; Lu et al., 2022).

Informal financing offers a viable alternative for entrepreneurs facing barriers to formal credit, thanks to its minimal requirements and expedited processes. By reducing transaction costs and eliminating the need for collateral, informal financing proves particularly advantageous for micro-enterprises operating within tight budgets and with immediate funding needs (Allen et al., 2019; Nguyen & Canh, 2021). Research indicates that informal financing enhances business outcomes by improving survival rates and fostering reinvestment and innovation (Yang et al., 2023). However, the lack of regulatory oversight and inherent risks associated with these models require careful management by entrepreneurs. Thus, informal financing represents a vital yet complex component of the financial ecosystem, balancing accessibility and risk, especially for small-scale enterprises in regions with limited formal credit access.

A notable example of informal financing in Indonesia is the saving group model known as *arisan*. In this community-based system, members contribute funds periodically, with pooled resources distributed in rotation, forming a dependable financial network for individuals excluded from formal banking systems (Ajija & Siddiqui, 2021; Kharisma et al., 2020). Beyond financial support, *arisan* fosters social solidarity, enabling members to build strong bonds and achieve collective growth through shared goals (Oranu et al., 2020; Sijia & Horita, 2019). Similar practices globally—such as *tanaomoshi* in Japan, *ke* in South Korea, and *kai* in China—underscore the universal value of community-centered finance in promoting economic security and social cohesion (Onda, 2021; Lowenstein, 2023). These culturally embedded systems illustrate how informal financial practices contribute to community resilience and economic stability.

In Indonesia, *arisan* is deeply integrated into social life, addressing economic needs while enhancing community welfare and quality of life (Hemtanon & Gan, 2021). In Jambi City, *arisan* serves as a vital social and financial practice, bringing together members from diverse social and economic backgrounds, age groups, genders, and professions. By providing accessible, trust-based financial support, *arisan* underscores its indispensable role in the Jambi community. This reliance on *arisan* highlights the importance of informal financing as a trusted alternative, especially in areas underserved by formal financial systems.

The success of *arisan* in Indonesia illustrates the value of community-centered financial systems in supporting financial stability, business growth, and social well-

being. Micro-enterprises, particularly in regions like Jambi, rely on such informal funding for sustainability and expansion. This study examines the impact of *arisan* participation among micro-enterprise owners in Jambi, focusing on its contributions to financial stability, business growth, and its role as an alternative to formal financing. Through a case study approach, the research explores how *arisan* fosters economic empowerment and resilience within Indonesia's small business sector, highlighting the critical role of informal financing in local economies.

## **METHODS**

### **Location and object of research**

This research was conducted in Jambi City, a strategic location for studying the role of *arisan* in supporting micro-enterprises due to its substantial population of micro-entrepreneurs and the widespread adoption of informal savings groups. According to projections by the Jambi City Statistics Bureau, approximately 400 active *arisan* groups operate across various neighborhoods, serving as essential financial resources. These groups collectively support over 5,000 micro-entrepreneurs, highlighting their critical role in addressing challenges associated with accessing formal financial services. Formal banking institutions often impose strict collateral requirements and complex loan processes, making *arisan* an accessible alternative.

Jambi City's economic landscape, characterized by a high concentration of micro-enterprises and a deeply rooted *arisan* culture, serves as an ideal context for this study. According to Law No. 20 of 2008 on Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, a micro-enterprise is defined as a business with a net worth capital of up to IDR 50 million, excluding land and building assets and an annual income not exceeding IDR 300 million.

These criteria align with the financial profiles of *arisan* participants in Jambi, who typically operate businesses that benefit from the flexible, community-driven funding provided by *arisan*. This accessibility makes *arisan* a preferred financial mechanism for Jambi's micro-entrepreneurs, promoting financial stability and gradual business growth among those who may not qualify for formal loans.

### **Sampling method**

A purposive sampling technique was employed to select 10 participants from a targeted *arisan* group in Jambi City. This sample size facilitates an in-depth qualitative analysis of *arisan*'s role in supporting micro-enterprises while also capturing diverse perspectives from participants who rely on *arisan* as a vital financial resource. The participants were chosen from various sectors, including small-scale food stalls, handicrafts, and household services, demonstrating the financial reliance on *arisan* across different micro-enterprise activities. This diversity within a relatively homogeneous group allows for an exploration of how *arisan* addresses the specific financial needs of micro-entrepreneurs in Jambi City.

### **Sample characteristics**

The sample consists of members from a single *arisan* group located in Jambi City. While participants are involved in diverse micro-enterprise sectors—such as food stalls, handicrafts, and household services—they share common financial goals, including stability and growth, achieved through *arisan*. This diversity within a unified group

context provides detailed insights into how *arisan* supports small business owners' varied financial needs, highlighting its adaptability and effectiveness as a financial mechanism.

### **Data collection techniques**

Data collection involved semi-structured interviews and participant observation:

- **Semi-Structured Interviews**

Each participant was interviewed for 60–90 minutes. The flexible interview format enabled the researcher to delve into participants' motivations for joining *arisan*, perceived benefits, challenges, and the overall impact on their lives and businesses. This approach allowed for the capture of both structured responses and nuanced insights into individual experiences.

- **Participant Observation**

The researcher observed *arisan* meetings to gain a firsthand understanding of group dynamics and member interactions. This provided contextual insights into the social aspects that influence the effectiveness of *arisan*. Field notes were meticulously recorded to complement the interview data, ensuring a comprehensive understanding of both the financial and social dimensions of *arisan*.

### **Data analysis**

The collected data was manually analyzed using thematic analysis. This process involved:

1. **Transcription**

Converting audio recordings from interviews into written transcripts for detailed examination.

2. **Coding**

Identifying and categorizing key themes and patterns across the data, focusing on recurring ideas related to *arisan*'s role in supporting micro-enterprises.

3. **Interpretation**

Synthesizing the themes to derive meaningful insights into how *arisan* functions as a financial support mechanism, addressing both the economic and social needs of micro-entrepreneurs in Jambi City.

This systematic approach ensured a thorough exploration of *arisan*'s impact on micro-enterprise funding, offering a comprehensive understanding of its role in fostering financial stability, business growth, and community resilience.

## **RESULTS AND DISCUSSION**

### **Results**

The sample for this study comprises 10 participants, each actively engaged in an *arisan* group within a single community. The participants represent various informal, small-scale enterprises common to Indonesian *arisan* communities, including food stalls, traditional herbal drinks, and tailoring services. Table 1 outlines the participants' business types and their roles within the *arisan*, while Table 2 provides a breakdown of business categories and participant demographics.

**Table 1.** Respondent profile

Participant ID	Type of Business	Role in Arisan	Business Background
1	Fried Snack Vendor	Active Member	Traditional fried snacks
2	Second-Hand Clothing Seller	Organizer	Resale of used clothes
3	Home-based Tailor	Active Member	Simple tailoring and alterations
4	Mobile Vegetable Vendor	Treasurer	Door-to-door vegetable sales
5	Traditional Herbal Drink Seller	Member	Herbal drinks ( <i>jamu</i> )
6	Chicken Porridge Stall	Member	Street food vendor (porridge)
7	Handmade Crafts Maker	Active Member	Crafts and souvenirs
8	Laundry by Kilo Service	Secretary	Small laundry business
9	Mixed Ice Beverage Seller	Member	Traditional ice cart
10	Fried Snack Vendor	Active Member	Traditional fried snacks

The participants reflect a diverse array of micro-enterprise sectors—trade, service, and production—that are prevalent in local communities. Their roles within the *arisan* group, such as treasurer, organizer, and secretary, highlight their active involvement in managing the financial and social operations of the group.

**Table 2.** Participant profile and business categories

Category	Examples	Percentage (%)
Trade	Beverage traders, food vendors	40.00
Service	Tailoring, laundry services	30.00
Production	Herbal drink makers, snack producers	30.00

From the data in Table 2, the trade sector accounts for the largest proportion of participants (40%), reflecting the prevalence of businesses such as beverage traders and food vendors. Respondent 1, a food vendor, notes, “I sell small snacks like fried foods and market snacks. People here like to snack, so small items sell quickly, and the capital needed is not too big.” This illustrates how small trade businesses address steady local demand with minimal capital investment.

The service and production sectors each represent 30% of participants. Service-oriented businesses include tailoring and laundry services, while the production sector encompasses activities like herbal drink-making and snack production. Respondent 2, a second-hand clothing seller, describes her work as follows: “I buy second-hand clothes from the market, select the good ones, and resell them. Many people prefer affordable clothing, so there is a steady demand.” This reflects how service-based enterprises cater to specific market needs for affordability and convenience.

The participant distribution highlights the diversity of business types within *arisan* groups, demonstrating their adaptability to various economic activities. This diversity underscores the role of *arisan* as a flexible financial mechanism that

accommodates the unique needs of micro-entrepreneurs across different sectors.

Table 3 categorizes the main themes regarding participants' motivations for joining *arisan*. The table highlights the recurring reasons shared by participants. The table highlights the recurring reasons behind their participation and provides illustrative examples from the responses.

**Table 3.** Motivation for joining *Arisan*

Category	Example	Percentage (%)
Limited Access to Formal Credit	Difficulties with bank loans due to collateral requirements	60.00
Trust and Security	Preference for <i>arisan</i> due to trust in community members	50.00
Social Networking	Building business and social connections	30.00

Several key motivations for participants joining *arisan* emerged from the study, as outlined in Table 3. The most common reason, cited by 60% of participants, is the limited access to formal credit. Many micro-entrepreneurs encounter significant barriers when seeking financial assistance from traditional banking institutions, primarily due to stringent collateral requirements. Respondent 10, for instance, shared that obtaining a bank loan was nearly impossible because of her limited resources as a fried snack vendor. She explained, “Getting a bank loan is difficult because they require collateral, and I only sell fried snacks. With *arisan*, we contribute each month, and when it is our turn, we receive funds to buy supplies without the hassle of a bank loan.” This illustrates how *arisan* serves as a practical and accessible alternative, addressing the financial challenges faced by small-scale business owners in informal sectors.

Another prominent motivation for joining *arisan*, expressed by 50% of participants, is the trust and security embedded within the system. The sense of community and familiarity among members creates a reliable and supportive financial network. Respondent 5 emphasized the importance of this trust, stating, “I joined this *arisan* because everyone here trusts each other, and the money is safe because the leader is one of us.” Unlike formal financial institutions, which are often perceived as impersonal or inaccessible, *arisan* fosters a sense of security that comes from direct relationships and collective accountability within the group.

A smaller proportion of participants (30%) highlighted the social networking opportunities provided by *arisan* as an additional benefit. Beyond financial support, *arisan* meetings serve as a platform for members to connect, exchange ideas, and build relationships that often extend to their businesses. Respondent 5, for example, noted that *arisan* provided her with opportunities to interact with other women in the group, saying, “We can exchange stories with the other women here, and sometimes I get new ideas for my herbal drink business.” This demonstrates how *arisan* not only supports financial needs but also facilitates the sharing of knowledge and ideas, contributing to the personal and professional growth of its members.

The economic benefits gained by participants through their membership in *arisan* are summarized in Table 4. These benefits encompass increased business capital, opportunities for expansion, and operational continuity, reflecting the critical role of *arisan* in supporting the financial needs of micro-entrepreneurs.

**Table 4.** Economic benefits of *Arisan*

Category	Example	Percentage (%)
Increase in Capital	Facilitating stock purchases and small expansions	70.00
Business Expansion	Opening new branches or expanding product offerings	40.00
Operational Continuity	Stabilizing cash flow during low sales periods	30.00

The most commonly reported benefit, noted by 70% of participants, is an increase in business capital. Membership in *arisan* provides participants with access to pooled funds, enabling them to make stock purchases and invest in small expansions. Respondent 6, who runs a chicken porridge stall, explained how these funds have supported her business: “With *arisan* money, I can add more capital for ingredients. Buying in larger quantities saves money, and I also used the funds to buy a sturdier cart.” This additional capital not only enhances operational efficiency but also facilitates gradual business growth.

Another 40% of participants reported that *arisan* enabled them to expand their business offerings or open new branches. For example, Respondent 3, a home-based tailor, described how *arisan* funds allowed her to diversify her products and attract more customers: “The *arisan* funds let me buy more fabric and thread. Now I can offer more styles and attract more customers.” This demonstrates how *arisan* catalyzes business development, allowing entrepreneurs to seize new opportunities and grow their market presence.

A smaller proportion, 30%, highlighted the role of *arisan* in maintaining operational continuity during challenging periods, such as slower sales seasons. Respondent 10, a fried snack vendor, shared: “During rainy days, sales are slow, but the *arisan* funds help me buy oil and flour to keep going even when income from sales is low.” This illustrates how *arisan* functions as a financial buffer, ensuring that businesses remain operational even during periods of reduced revenue.

Several challenges faced by participants in the implementation of *arisan* are summarized in Table 5. These challenges include limited funds, trust issues, and inconsistencies in contributions, all of which affect the overall efficiency and effectiveness of *arisan* as a financial mechanism.

**Table 5.** Challenges in the implementation of *Arisan*

Category	Example	Percentage (%)
Trust Issues	Misunderstandings or occasional conflicts	30.00
Limited Funds	Insufficient funds for large-scale growth	40.00
Consistency in Contributions	Irregular contributions affecting fund availability	20.00

One of the most commonly reported challenges, cited by 40% of participants, is the limitation of funds. While *arisan* provides financial support, the total contributions are often insufficient to meet the larger-scale capital needs of businesses. Respondent 7, a craft maker, elaborated on this issue: “The *arisan* only provides small extra funds, so if I have a larger project, I still need to look elsewhere for funding. However, it helps buy extra materials.” This highlights how *arisan*, while valuable for incremental business needs, may not fully address the demands of significant expansions or large investments.

Trust issues were mentioned by 30% of participants, reflecting interpersonal

challenges that occasionally disrupt group harmony. Misunderstandings or conflicts about the management of funds can strain relationships and undermine the cohesion of the *arisan* group. Respondent 4, a mobile vegetable vendor, described an instance of such challenges: “Sometimes, if someone is late with their payment, it delays the whole group’s distribution. There were even misunderstandings where people thought the money was used by others first.” These trust-related issues underscore the importance of transparency and clear communication within the group to maintain a functioning *arisan* system.

Another 20% of participants identified inconsistencies in contributions as a challenge. Irregular payments by members can disrupt the timely distribution of funds, creating difficulties for those relying on the payouts. Respondent 9, an ice beverage seller, explained, “Not everyone is consistent with their contributions, and this delays payouts, making things difficult for those relying on the funds.” This issue highlights the dependency of *arisan* on consistent member participation to ensure its reliability as a financial resource.

The significant social impacts of *arisan* participation are summarized in Table 6. These impacts include fostering solidarity, strengthening social relationships, and facilitating the exchange of knowledge, all of which contribute to the broader well-being of the participants and their communities.

**Table 6.** Social impact of *Arisan*

Category	Example	Percentage (%)
Increased Solidarity	Enhanced sense of community and solidarity	70.00
Strengthened Social Relationships	Frequent social events and support during life events	60.00
Shared Knowledge	Exchange of business tips and practices	30.00

The most frequently reported social impact, noted by 70% of participants, is increased solidarity and a stronger sense of community. *Arisan* fosters a supportive environment where members feel a familial bond, providing emotional and material assistance during critical times. Respondent 1, a fried snack vendor, described the group’s sense of unity: “It is like we are family here. Suppose someone is sick or there is an event. In that case, everyone helps, even with food contributions.” This shared sense of responsibility and mutual care strengthens the social fabric of the group and enhances members’ quality of life.

Additionally, 60% of participants observed that *arisan* strengthened their social relationships by encouraging frequent interactions and mutual support during significant life events. The regular meetings and shared activities create opportunities for members to connect on a personal level. For instance, Respondent 6, a chicken porridge seller, shared her experience: “I needed help with cooking for my child’s wedding, and the *arisan* ladies came to help, so I did not have to hire extra help.” This reflects how *arisan* extends beyond financial collaboration to become a platform for building enduring social bonds.

Another 30% of participants highlighted the benefit of shared knowledge within the *arisan* group. Meetings serve as informal forums where members exchange business tips, practices, and referrals, fostering entrepreneurial growth. Respondent 5, who sells herbal drinks, emphasized this aspect: “I have gotten new customers for my herbal drinks because other members recommend me, so it is like having extra promoters in the community.” This demonstrates how *arisan* participation not only strengthens



individual businesses but also contributes to collective economic empowerment within the group.

## DISCUSSION

This study underscores the role of *arisan* as a vital alternative funding source for micro-enterprises in Jambi. Beyond providing financial support, *arisan* fosters solidarity and trust among its members, functioning as both a financial and social support network. The findings suggest that *arisan* enables small business owners to overcome barriers such as limited access to formal credit. This contributes to financial stability and micro-enterprise growth, particularly in areas underserved by traditional financial institutions.

Participants in this study represent a range of sectors, including trade, service, and production, with trade showing the highest representation. This diversity reflects *arisan*'s adaptability in supporting various small-scale enterprises common within local communities. From food vendors to tailors, the range of businesses highlights *arisan*'s integral role in local economies by addressing the needs of diverse micro-enterprises.

Motivations for joining *arisan* emphasize its accessibility and reliability. Limited access to formal credit emerges as a significant driver, particularly for individuals without alternative funding options. Participants also highlighted the trust and security offered by *arisan*, which many find more dependable than formal financial institutions. Moreover, *arisan* serves as a platform for social networking, enabling members to expand both their business and personal connections within a supportive community framework.

While *arisan* provides substantial economic benefits—such as increased business capital and opportunities for gradual business expansion—participants also noted several challenges. Limited funds within the group can restrict the scale of growth, and occasional interpersonal issues, such as trust disputes or misunderstandings, can affect group cohesion. Inconsistent contributions were also identified as a challenge, disrupting the timely distribution of funds and highlighting the importance of member reliability for the sustainability of this community-based financing system.

Beyond its economic contributions, *arisan* is recognized for its significant social impact. Many participants observed that *arisan* fosters a strong sense of solidarity and strengthens relationships within the community, promoting a culture of trust and cooperation. Additionally, *arisan* meetings provide opportunities for members to exchange knowledge on business practices, creating a collaborative learning environment that benefits individual enterprises. These social contributions demonstrate *arisan*'s importance in community building and social resilience, qualities essential for sustaining long-term support networks.

The findings align with previous research on informal financing models for micro-enterprises. Studies by Dagunga et al. (2020) and Hemtanon and Gan (2021) affirm the critical role of informal financing models like *arisan* for micro-enterprises unable to access formal credit. Similarly, Allen et al. (2019) and Nguyen & Canh (2021) emphasize the preference for trust-based, community-driven financing systems over formal institutions, paralleling this study's finding that *arisan* members value its security and familiarity.

Economic benefits, such as improved business capital and growth opportunities, are consistent with findings by Green (2019) and Mia (2017), who observed that informal financing enhances income and supports business development. Social benefits

highlighted in this study also align with research by Hussain et al. (2021) and Mushtaq & Bruneau (2019), which underscore the ability of informal financing models to foster solidarity and mutual support within communities.

By bridging a gap left by traditional financial institutions, *arisan* demonstrates its potential as a sustainable, community-centered financing mechanism. It serves as both a financial resource and a platform for strengthening social ties and fostering resilience in underserved communities. The implications of these findings suggest opportunities for hybrid models that integrate *arisan* with formal financial systems, potentially enhancing its capacity to support micro-enterprises more comprehensively.

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

This study demonstrates that in Jambi City, *arisan* serves as a vital financing source for micro-enterprises. Participants reported significant benefits, including increased business capital and expansion opportunities. Beyond financial advantages, *arisan* fosters positive social impacts, such as enhanced solidarity and improved financial management skills. Despite challenges such as trust issues and funding constraints, *arisan* remains an essential alternative for those with limited access to formal credit, supporting the growth and sustainability of micro-enterprises. These findings highlight the critical role of informal financing in empowering small businesses and fostering economic resilience in underserved communities.

### Recommendations

*Arisan* groups are encouraged to implement stricter supervision mechanisms and enhance transparency in fund management to address trust issues and other common challenges. Establishing partnerships with formal financial institutions could also help increase the financial resources available to members, enabling more significant business investments. Additionally, providing regular financial management training to *arisan* members is crucial to strengthening their financial skills further and ensuring the effective use of funds.

Beyond Jambi, *arisan* offers potential as an alternative financing model for other regions with similar socio-economic conditions. Policymakers can leverage the insights from this study to develop policies that support *arisan* as a tool for financial inclusion. This could include providing incentives for participants, fostering collaborations with formal financial systems, and introducing regulations that ensure transparency and offer legal protection for *arisan* groups. These measures would enhance the sustainability and scalability of *arisan* as a financing solution for micro-enterprises.

Future research could explore the scalability of *arisan* as an alternative financing model in different socio-economic and cultural contexts, particularly in rural or urban areas with distinct financial needs. Comparative studies between *arisan* and other informal financing models, both within Indonesia and internationally, would provide deeper insights into best practices and potential improvements. Additionally, longitudinal studies examining the long-term economic and social impacts of *arisan* participation on micro-enterprises could offer valuable data for enhancing its effectiveness. Investigating the integration of *arisan* with formal financial institutions, such as microfinance or cooperative banking, could also reveal innovative hybrid models to serve the financial needs of small businesses better.

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