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Analysis of The Implementation of KITE IKM Policy in Indonesia

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Abstract

Purpose: This study aims to examine the implementation of the Ease of Import Facilities for Export-Oriented Small and Medium Industries (*Kemudahan Impor Tujuan Ekspor untuk Industri Kecil dan Menengah*/KITE IKM) policy and explore the factors affecting its implementation based on Grindle's policy implementation model.

Research Methodology: This study employs a qualitative approach using Grindle's policy implementation model for the analysis. Data were collected through interviews and document and literature reviews.

Results: Policy implementation is hindered by various constraints, including the absence of quantitative targets, limitations in the performance measurement system for facility beneficiaries, and insufficient inter-agency coordination in supporting the empowerment of export-oriented Small and Medium-sized Enterprises (SMEs). In terms of implementation factors, weaknesses such as a limited understanding of the target group, suboptimal outreach, and uneven implementation strategies across the Digital Green Communication Engagement (DGCE's) operational regions persist.

Conclusions: Optimizing the KITE IKM program requires not only improvements in policy implementation but also strengthening the export SME ecosystem through more integrated inter-agency collaboration to support capacity building and SMEs exports.

Limitations: This study is limited to the implementation of the KITE IKM policy during 2017-2025 employing Grindle's policy implementation framework.

Contributions: This study contributes to the literature on policy implementation and provides practical insights for policymakers, particularly the DGCE, to improve the implementation of the KITE IKM program and strengthen MSME empowerment and export participation.

Keywords: *Ease of Import Facilities for Export-Oriented Small and Medium Industries, Export Micro Small and Medium Enterprises, Policy Implementation*

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1. Introduction

Economic growth remains a key indicator of national development and prosperity. Despite global economic challenges, Indonesia has maintained relatively stable growth, supported by domestic consumption, exports, and the manufacturing sector (BPS, 2025). As a major contributor to the Gross Domestic Product (GDP), the manufacturing sector plays an important role in sustaining economic growth and strengthening Indonesia's global competitiveness.

In this context, Micro, Small, and Medium Enterprises (MSMEs) have become an essential pillar of Indonesia's economy. The Coordinating Ministry for Economic Affairs Perekonomian (2025) stated that MSMEs contribute more than 60% to the national GDP and account for 97% of national employment, making them a key driver of economic resilience and inclusive development. SMEs contribute to economic development by supporting supply chain linkages through export and trade (Fajarika, Trapsilawati, & Sopha, 2024). Previous studies have shown that export-oriented MSMEs tend to achieve higher growth in sales, assets, and productivity than firms that operate solely in domestic markets (Ngan, 2022).. Consequently, government policies that encourage MSME engagement in international trade are increasingly important for achieving sustainable economic growth in Indonesia.

Since 2024, the government has promoted the development of MSMEs in Indonesia through the establishment of the Ministry of Micro, Small, and Medium Enterprises in accordance with Presidential Regulation No. 196 of 2024. According to the official website of the Ministry of MSMEs, the number of MSMEs was only presented up to 2019, as shown in Table 1 below:

Table 1. Number of MSMEs in Indonesia 2015-2019

MSMEs Criteria	2015	2016	2017	2018	2019
Total MSMEs	59,262,772	61,651,177	62,922,617	64,194,057	65,465,497
Micro	58,521,987	60,863,578	62,106,900	63,350,222	64,601,352
Small	681,522	731,047	757,090	783,132	798,679
Medium	59,263	56,551	58,627	60,702	65,465

Recognizing the strategic role of MSMEs in economic development, the Indonesian government prioritized MSME strengthening in the 2020-2024 and 2025-2045 National Medium-Term Development Plans. These policies focus on increasing value-added employment, investment, exports, and competitiveness by expanding market access, integrating MSMEs into industrial value chains, promoting business formalization, and improving access to financing. Their success is measured through indicators such as MSME financing, the development of SME hubs outside Java, and MSME contributions to the GDP. Given their significant contribution to the economy, MSMEs require supportive public policies to enhance their growth. One such approach is the provision of fiscal incentives, simplified customs procedures, and improved import-export access for raw materials and finished products. Fiscal incentives are widely used to reduce production costs, improve competitiveness, and encourage business expansion.

Fiscal policy has been widely recognized as an important instrument for economic development and SME growth. Empirical studies indicate that fiscal incentives can strengthen SME competitiveness and sustainability by increasing business capacity, financial performance, cash flow, and access to finance while supporting business continuity during periods of economic uncertainty (Cuong & Trang, 2025; Jusufi & Gashi-Sadiku, 2020; Kurniawan, Maulana, & Iskandar, 2023; Zhao, Xiao, Yang, & Chen, 2024). Fiscal incentives also contribute to higher tax compliance and participation in the formal economy, although their effectiveness depends on sound tax administration and governance (Jusufi & Gashi-Sadiku, 2020; Prasetia, 2025; Visedsun, Piriyakul, Sriprasert, Rummapor, & Srithaworn, 2024).

Fiscal incentives are also associated with improved export performance and international competitiveness. among SMEs. However, export participation is also influenced by internal capabilities including financial resources, technology, digital adoption, human capital, and supportive business environments (Mpunga, 2016; Pickernell, Jones, Thompson, & Packham, 2016). Moreover, exporting SMEs benefit from continuous participation in government export assistance programs (Revindo & Devianto, 2019). Despite these benefits, the effectiveness of fiscal incentives is shaped by taxpayer awareness, regulatory understanding, administrative burdens, institutional support, and policy design (Adžić, Nestorović, Zakić, Aničić, & Penjišević, 2023; Ndlovu, 2025; Wu, Ma, & Guo, 2022). These findings underscore the importance of examining both the outcomes and implementation of fiscal incentive policies.

In Indonesia, the Directorate General of Customs and Excise (DGCE) launched a fiscal incentive scheme specifically designed for export-oriented small and medium industries, called The Policy for Ease of Import Facilities for Export Purposes for Small and Medium Sized Industries or *Kemudahan Impor Tujuan Ekspor Industri Kecil dan Menengah* (KITE IKM), in line with the Government's Economic Policy Package Volume I. The KITE IKM facility is a customs facility provided to manufacturing industries that generally import goods and materials to be processed for export as value-added goods and materials. Through this mechanism, the government aims to reduce production costs, improve cash flow, increase export competitiveness, and encourage industrial upgrading among small and medium enterprises. The policy is also expected to contribute to broader economic objectives, including export growth, investment expansion, employment creation, and increased value-added productions.

Risydan Al Anshori and Ahmat (2019) emphasizes that the KITE IKM facility serves as a form or government support for SMEs by reducing administrative and financial burdens, strengthening export-oriented SMEs, improving competitiveness, and creating a more conducive business environment through lower logistics costs and trade facilitation. This facility mainly benefits export-oriented SMEs, while many SMEs that rely on imported raw materials for domestic production remain outside its scope. Furthermore, imported intermediate inputs significantly enhance firm productivity and export performance, as access to a wider variety of imported inputs contributes to higher productivity, greater export growth, and stronger competitive ability. Facilitating access to imported raw materials and intermediate goods through policies can support SME productivity, strengthen export capacity, and promote participation in global networks (Pane & Patunru, 2023). A previous study in Vietnam highlighted the need for import tax policies to enhance the material and technological capabilities (Tien, 2022).

Although the KITE IKM facility has been implemented for several years and the number of beneficiary firms continues to increase, several challenges remain to be addressed. The growth rate of new beneficiaries has gradually slowed, indicating that the policy may not have yet reached its full potential. Based on DGCE data as of December 31, 2025, the number of KITE IKM beneficiaries is shown in Figure 1 as follows:

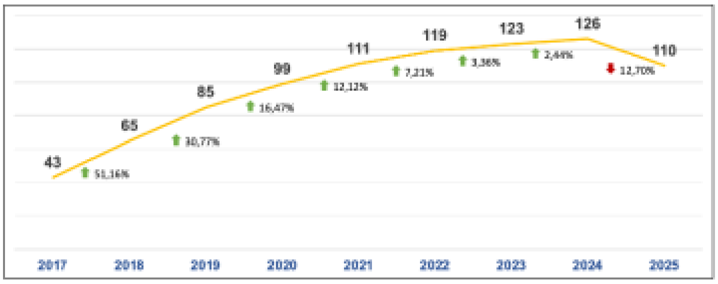

Figure 1. Number of KITE IKM beneficiaries, 2017-2025

The KITE IKM facility itself is a fiscal incentive provided through a customs scheme launched to target MSMEs that meet specific criteria, as outlined in Minister of Finance Regulation No. 177/PMK.04/2016 in conjunction with Ministerial Regulation No. 110/PMK.04/2019 regarding the Exemption from Import Duties and the Non-Collection of Value-Added Tax (VAT) or VAT and Sales Tax on Luxury Goods on the Import of Goods and/or Materials, and/or the Import of Machinery for the Purpose of Export by Small and Medium-Sized Industries. These fiscal facilities are provided to the manufacturing industry, which serves as the primary driver of the national economy, with a specific focus on MSMEs that meet certain criteria. The manufacturing industry, as defined in the KITE IKM policy, refers to activities involving processing, assembly, and installation, such that the resulting products have added value. The KITE IKM criteria are outlined in Table 2.

Table 2. KITE IKM beneficiaries' criteria

Business Scale	Net Assets (IDR)	Annual Sales/ Revenue (IDR)	Investment Value (IDR)
Small	>50 million to 500 million	> 300 million to 2,5 billion	>50 million to 500 billion
Medium	>500 million to 1 billion	> 2,5 billion to 50 billion	>500 million to 10 billion

The provision of KITE IKM facilities as a fiscal instrument is expected to boost exports from MSMEs registered as KITE IKM beneficiaries. Recipients or beneficiaries of KITE IKM facilities are encouraged to actively engage in import and export activities using KITE IKM facilities. However, compared to the number of KITE IKM beneficiaries shown in Figure 1, the average percentage of KITE IKM beneficiaries conducting import or export activities is only around 50% of the total number each year. The number of KITE IKM beneficiaries who have conducted import and export activities is shown in Figure 2.

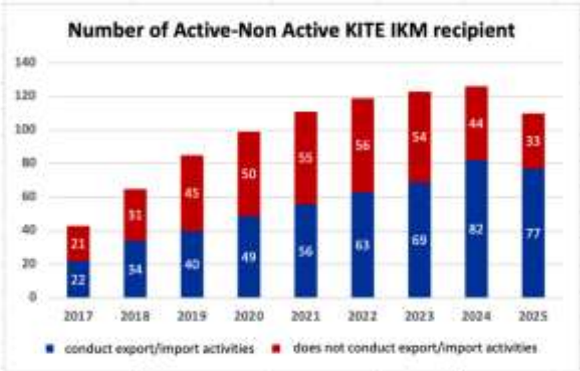

Figure 2. Number of active KITE IKM beneficiaries

The KITE IKM facility was introduced to encourage MSMEs to contribute to economic growth through export activities. Nevertheless, its utilization remains limited, as relatively few SMEs have adopted the scheme, many beneficiaries use it for only a short period or not at all, and there is only one KITE IKM consortium, which has remained inactive and has not engaged in export activities. According to previous studies, the adoption of business support programs is influenced by organizational readiness, perceived benefits, managerial capability, financial literacy, and a firm's ability to adapt to program requirements (Kurnia, Situmorang, & Sudiyono, 2025; Widodo, Kurniawati, Ambarwati, & Kusumawati, 2026). In addition, export performance is shaped by external economic conditions and market dynamics, indicating that export promotion requires not only incentives but also sustained support for SMEs (Yuninata & Utama, 2026)

The utilization of fiscal incentives among MSMEs is often constrained by legal and administrative requirements, limited business literacy, and the prevalence of informal business practices (Kaharuddin, Minollah, Cahyowati, & Nurbani, 2024; Maulidya & Putranti, 2017; Nadiminti, Tom, & Timana, 2024). Tax knowledge, policy outreach, awareness, and institutional support play important determinants of policy effectiveness, while administrative hierarchies may weaken implementation (Guo et al., 2025; Hosono, Hotei, & Miyakawa, 2023; Zharaura, N, & Syukur, 2022). Although fiscal incentives such as KITE IKM have been found to improve export performance (Adriyanto and Qibthiyyah (2022), Guntara and Muchtar (2024), and Nabila (2023), their effectiveness may be reduced by implementation barriers, including limited outreach, low business understanding of KITE IKM requirements, and insufficient coordination among stakeholders (Muchtar & Suganda, 2021). Membership in MSME cooperatives has also shown limited influence on exports (Tambunan, 2024). Consequently, achieving the intended outcomes of fiscal incentive policies requires not only appropriate policy design but also adequate institutional support and business readiness.

Despite the growing literature on fiscal incentives, MSME development, and export promotion, important gaps remain in the study of the KITE IKM policy. Most previous studies have focused on evaluating economic outcomes, particularly export performance, through quantitative approaches. Consequently, limited attention has been paid to understanding how the policy is implemented and how implementation factors influence its effectiveness. Existing studies suggest that policy outcomes are often shaped not only by policy content but also by institutional capacity, stakeholder coordination, administrative support, and beneficiary participation (Muttaqin, Reba, & Mahbobor Rahman, 2025). However, these dimensions have rarely been examined in the context of KITE IKM. Furthermore, studies applying a policy implementation perspective to analyze KITE IKM remain limited, resulting in a lack of comprehensive understanding of how policy design and implementation context interact to influence policy effectiveness. This gap highlights the need for a more in-depth analysis of KITE IKM from a policy implementation perspective, rather than solely through outcome-based evaluations.

The identified research gap is particularly relevant to the implementation of KITE-IKM. This policy is implemented through the interaction of multiple actors, including the DGCE, KITE IKM beneficiaries, and other supporting stakeholders or institutions. Its implementation occurs within diverse institutional and socioeconomic conditions characterized by varying administrative capacities, regulatory requirements, and levels of MSME readiness to participate in international markets. These conditions suggest that policy effectiveness depends not only on the incentives provided but also on how the policy is implemented and supported in its broader context.

Against this background, this study analyzes the implementation of the KITE IKM policy using Grindle's policy implementation framework. By examining both policy content and implementation context, this study shifts the focus of KITE IKM research from outcome-oriented evaluation to implementation-oriented analysis. This study contributes to the public policy and MSME development literature by providing empirical evidence on how implementation factors shape policy effectiveness. In addition, the findings offer practical insights for strengthening institutional capacity, stakeholder coordination, and administrative support to enhance the effectiveness of fiscal incentive programs in improving the export competitiveness of Indonesian MSMEs.

2. Literature Review

2.1 Policy Implementation

Public policy refers to government actions or decisions not to act in addressing public issues (Dye, 2017). As a policy process, it involves a series of interconnected stages, including agenda setting, formulation, adoption, implementation, evaluation, and adaptation, which are influenced by various internal and external factors (Dunn, 2018; Howlett, 2020). Policy implementation serves as a link between policy formulation and its societal consequences. It encompasses efforts to implement policies and achieve intended outcomes, making policy impacts and outcomes important indicators of implementation success and policy effectiveness (Grindle, 2017).

2.2 Policy Implementation Models

When measuring the success of policy implementation, it is necessary to examine it not only from an administrative perspective but also as a political process. Grindle (2017) developed a theory of policy implementation by highlighting the influence of policy content and the context of implementation. The results or outcomes of a policy are determined by the content of the policy itself and the interactions among decision-makers within the framework of its political and administrative processes. Grindle’s policy implementation model is illustrated in Figure 3.

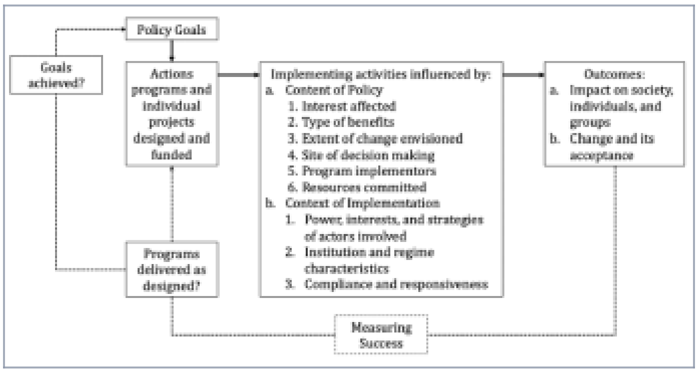

Figure 3. Merilee S. grindle's policy implementation model

The content of policy implementation consists of six main aspects. Affected interests refer to the various interests influenced by the implementation of a policy. Types of benefits describe the benefits generated from the positive impacts of the policy that shape stakeholders' responses and behaviors. The extent of change envisioned refers to the targeted changes expected from policy implementation. The site of decision-making relates to the position and authority of policymakers involved in the decision-making process. The program implementor concerns the capabilities and competencies of those responsible for implementing the policy. Committed resources refer to the resources allocated and utilized to support policy implementation. Meanwhile, the context or environment of policy implementation involves the power, interests, and strategies of the actors involved; institutional and regime characteristics; and compliance and responsiveness. These dimensions are largely determined by the interactions, roles, and commitments of the actors involved in the policy implementation process.

Grindle (2017) explains the concept of "interest-affected," highlighting the interests of the various parties involved in and affected by a policy's implementation. The complexity of a policy depends on the diversity of the actors involved; the more actors there are, the greater the likelihood of conflict there is. Therefore, policies must be designed to be inclusive and adaptive to the evolving dynamics of interest so that successful implementation can be achieved more easily. The benefits of a policy can be collective or divisible. Policies with collective benefits provide broad benefits to society. The successful implementation of such policies is more assured than that of policies with divisible or separate benefits. According to Grindle (2017), public perception of the benefits received also determines the success of policy implementation, regardless of a policy's formal design.

The scale of change brought about by a policy also determines its implementation complexity. The "extent of change envisioned" refers to the changes expected from a policy; the greater the change, the more difficult it will be to achieve. Conversely, the smaller the change, the easier it is to implement. Such changes must be supported by competent human resources, infrastructure, and strong relationships among relevant institutions. The aspect of decision-making authority influences policy implementation because it relates to organizational structures that reflect power dynamics and bureaucracy, which, in turn, affect the effectiveness of implementation on the ground. Organizational structures determine whether decision-making is centralized or decentralized. This affects policy consistency and responsiveness to ground conditions during policy implementation.

One of the most critical factors determining the success of policy implementation is the implementers of the policy. Implementers are actors who interpret policies, make operational decisions, and understand on-the-ground conditions when making decisions. Grindle (2017) emphasizes that public policy requires competent implementors who understand policy objectives and possess the capacity and authority to implement policies effectively. The final aspect of the "content of policy" element is resources. The availability of various resources also determines policy implementation. This support takes the form of the availability and quality of resources, as measured by indicators of adequacy, continuity, and adjustability. The resources required for policy implementation include funding, infrastructure, and human-resource capacity.

The second element, the context of implementation, relates to the environment in which the policy is implemented. First, policy implementation is greatly influenced by the actors involved in the public and private sectors. Each actor has different positions, authority, and interests. This significantly influences the strategies employed for policy implementation. Second, institutional characteristics, as reflected in bureaucratic structure, bureaucratic procedures, work culture, and human resource capacity, also affect policy effectiveness. Additionally, support from the political system or regime influences an institution's operational patterns. Third, the compliance of policy implementers with regulations and directives. This aspect is influenced by the clarity of instructions, supervision, incentives, and sanctions. Furthermore, implementers must be responsive to on the ground dynamics to address obstacles and challenges in policy implementation.

3. Methodology

This study employed a post-positivist paradigm with a qualitative approach, recognizing that researchers' values influence both the research process and data interpretation (Teddlie & Tashakkori, 2009). Qualitative research was selected because it allows the use of multiple data sources to understand complex phenomena Creswell (2018). Data were collected through interviews and a document review. Interview guidelines were developed based on Grindle's policy implementation model, while informants were selected using purposive sampling and included representatives from the Directorate of Customs Facilities, Customs and Excise Regional Office, Customs and Excise Controlling and Servicing Office (*Kantor Pengawasan dan Pelayanan Bea dan Cukai*/KPPBC), the Ministry of MSMEs, KITE IKM beneficiaries, non-beneficiary MSMEs, and the SME Center at the Faculty of Economics and Business, University of Indonesia (FEB UI). Secondary data were obtained from relevant documents and the literature. Data were analyzed using source triangulation by comparing and integrating evidence from primary and secondary data sources to develop coherent themes and enhance the findings' validity (Creswell, 2018; Miles, Huberman, & Saldana, 2014).

4. Results and Discussions

4.1 Implementation Process

The KITE IKM policy was formulated in accordance with the President's directive to deregulate regulations to support SMEs as part of the MSME sector under the Economic Policy Package. To implement this directive, the Directorate General of Customs and Excise provides a customs facility to encourage MSME exports, namely KITE IKM. The KITE IKM facility is a customs facility in the form of an exemption from import duties and Value Added Tax (VAT) and excise tax, as stipulated in Article 26(1)(k) of Law No. 17 of 2006 on Customs and Excise. This facility was selected because, under that article, the benefits provided are not limited to specific goods, although they are tied to specific activities that must be carried out. This is evidenced by the diverse range of industrial sectors receiving the KITE IKM facility, as shown in Table 3.

Table 3. Industrial sectors of KITE IKM beneficiaries

Type of Industrial Business	Number of Companies
Furniture	34
Textile, apparel and accessories	23
Handicrafts	17
Wigs and false eyelashes	10
Leather goods	8
Others	18

Based on the data in Table 3, there are six categories of industries receiving KITE IKM facilities. The dominant sector or industry type is the furniture industry. Other sectors include the food and beverage industry, seafood processing, electronic and electrical components, coffee processing, and tobacco. This indicates that various industrial sectors can utilize the KITE IKM facilities. Regulation of the Minister of Finance No. 177/PMK.04/2016 in conjunction with the Regulation of the Minister of Finance No. 110/PMK.04/2019 also does not specify restrictions on which industries may receive KITE IKM facilities; however, it emphasizes the requirement that production processes be carried out prior to export. The production process is a requirement under the KITE IKM policy, which aligns with the objective of producing goods with added value.

The paradigm for SME development no longer focuses solely on increasing the number of SMEs but has shifted toward recognizing the importance of value addition and exporting manufactured goods. Additionally, the Directorate General of Customs and Excise (DGCE) introduced incentives for machinery imports. This machinery can be used not only for the production of goods exported under the KITE SME scheme but also for goods produced outside such schemes, including those for the domestic market. From a policy perspective, the facilities provided are sufficient to facilitate and encourage SME. Thus, the selection of policies aligns with the targets and objectives set by the DJBC, namely, supporting the growth of SMEs. Furthermore, the ultimate goal of providing customs facilities in the form of the KITE IKM program is for the products of facility recipients to possess added value and be competitive in the international market.

The implementation of the KITE IKM policy indirectly involves various external agencies, such as the Ministry of Trade, Ministry of Industry, Ministry of Cooperatives and Small and Medium Enterprises, Ministry of Investment and Downstream Industry, Indonesia Investment Coordinating Board (*Badan Koordinasi Penanaman Modal*/BKPM), and local governments. However, there has been limited synergy in efforts to optimize the utilization of KITE IKM facilities in Korea. The DGCE, through the Directorate of Customs Facilities, recognizes that the number of KITE IKM beneficiaries remains suboptimal and is trending downward. This decline in the number of KITE IKM beneficiaries is also influenced by the imbalance between the number of new beneficiaries and the number of facilities that have been revoked. The revocation of KITE IKM facilities is largely due to the suboptimal utilization of the facilities by companies, as shown in Table 4 below:

Table 4. Reasons for revocation of KITE IKM facilities

Reasons of Revocation	Number of Companies
Application for revocation	24
Not importing using the KITE IKM facilities	22
Scale up (medium-sized to large-scale)	11
Not comply with the KITE IKM regulations	3
Results (recommendations) of general monitoring	2
Undeclared reasons	14

When viewed from the criteria established for eligibility to receive the KITE IKM facility, they are not significantly different from the criteria for small and medium-sized industries set by the Ministry of Industry and the Ministry of Cooperatives and Small and Medium Enterprises (SMEs). The requirements that must be met include the submission of an export plan or a contract with a buyer. Consequently, only SMEs that have established export marketing plans are eligible to receive KITE IKM facilities. Therefore, outreach efforts are crucial in encouraging the utilization of the KITE IKM facility.

In terms of requirements, export contracts or export plans that must be met when applying for the KITE IKM facility have not yet ensured optimal utilization of the KITE IKM by its beneficiaries. Internal obstacles faced by KITE IKM recipients prevent companies from fully utilizing customs facilities. Production capacity or order volume is not commensurate with the import costs that must be incurred, even though import duties and VAT are waived. This highlights the difficulty in sustaining marketing efforts for exports. The DGCE’s measures regarding the KITE IKM policy cannot solely focus on efforts to help non-recipient SMEs become KITE IKM recipients. Instead, the government must assist and monitor the sustainability and expansion of exports by KITE IKM facility recipients beyond their initial export success until they achieve better corporate performance. Additionally, the government must enhance the capabilities of KITE IKM beneficiaries to increase their sales and export intensity.

This is crucial because, otherwise, KITE IKM facility beneficiaries with limited resources will experience a decline in corporate performance as export intensity increases.

The DGCE anticipated the limited import capacity of SMEs through the provision of the KITE IKM consortium scheme. Under the Ministry of Finance Regulation No. 177/PMK.04/2016, as amended by Regulation No. 110/PMK.04/2019, KITE IKM facilities may also be granted to KITE IKM conservatives. A KITE IKM consortium refers to a business entity established or designated by a group of small and medium industries (SMIs), an SMI appointed by several SMIs within an industrial cluster, or a cooperative entity. However, since the introduction of the KITE IKM program, only one consortium has been established, and it never utilized the KITE IKM facility before its authorization was revoked in 2026. The main obstacle identified was competition among the consortium member firms. This finding suggests that the KITE IKM consortium scheme has not been effective in attracting SMIs to the KITE IKM facility.

The implementation of the KITE IKM policy by the DGCE through the Directorate of Customs Facilities has been underway for nearly ten years, beginning with outreach activities at the DGCE headquarters and in regional offices conducted by the Customs and Excise Control and Servicing Office (KPPBC). Outreach for the KITE IKM policy remains a routine activity, although its implementation is determined by each KPPBC as a unit with full authority. The KPPBC is expected to function as the primary liaison with local governments to promote the broader development of the KITE IKM policy. Although local governments are not directly involved in the business process, their support is essential, particularly regarding outreach and awareness-raising efforts for the KITE IKM program. Local governments can act as an extension of the KPPBC, whose institutional presence is limited across regencies and municipalities.

Efforts to optimize the KITE IKM policy have also been carried out through several work programs, including the Export Clinic, Customs Facilitation Agents, and MSME Empowerment Program. Specifically, the MSME Empowerment Program is part of the One Ministry of Finance MSME Empowerment Program (*Program Pemberdayaan Usaha Mikro, Kecil, dan Menengah/UMKM Kemenkeu Satu*), which has been implemented since 2023 under Minister of Finance Decree (KMK) No. 396/KMK.01/2022 concerning the Synergy Program for the Empowerment of Micro, Small, and Medium Enterprises, within the Ministry of Finance. Through this program, collaboration among all agencies under the Ministry of Finance has been strengthened. Program activities encompass various aspects, including financing, marketing, training and mentoring, enhanced cooperation and collaboration with other institutions, including the private sector, and the provision of fiscal incentives. According to the DGCE data, approximately 32 million MSMEs have received services through the One Ministry of Finance MSME Empowerment Program.

The MSME Empowerment Program has become a priority in line with the DGCE’s role in international trade and the national economy. The program aims to enhance the competitiveness and capacity of MSMEs, enabling them to access export markets and improve their productivity. Its key areas of focus include customs facilities, technical assistance, digitalization, and collaboration with other institutions. The MSME Empowerment Program encompasses various activities, including technical guidance and training in business management, digital marketing, and strategies for entering global markets. The DGCE also assists with customs regulations and licensing requirements. To optimize MSME empowerment efforts nationwide, the DGCE implements the Export Clinic (*Klinik Ekspor*) and Customs Facility Agent (*Agen Fasilitas Kepabeanan*) programs, which also support the KITE IKM policy. Data on DGCE-assisted MSMEs are presented in Figure 4.

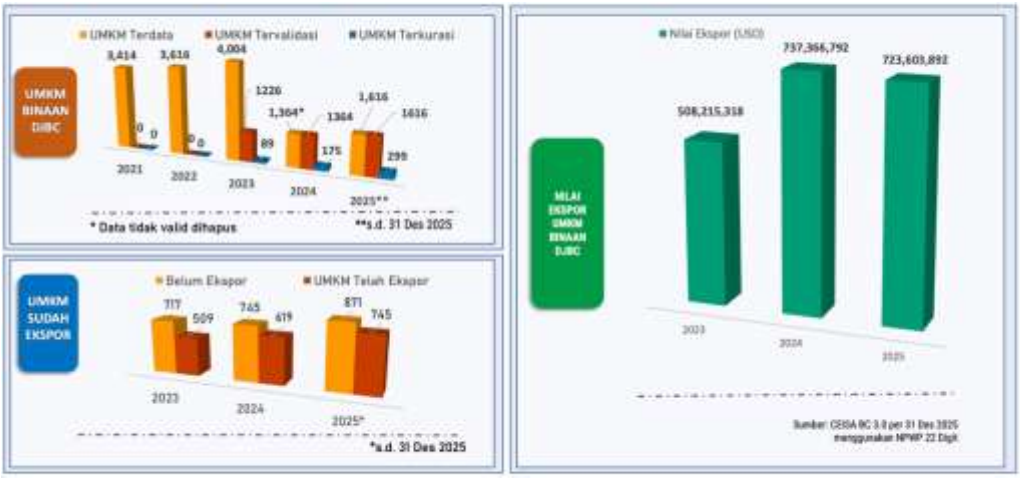

Figure 4. Data on DGCE-assisted MSMEs

Based on the data presented in Figure 4, DGCE-assisted MSMEs are classified into three categories: registered, validated and curated MSMEs. Between 2021 and 2023, the number of registered MSMEs increased steadily, reaching approximately 4,000. However, in 2024, this figure declined significantly to approximately 1,300 enterprises following a data validation process. Although the total number of DGCE-assisted MSMEs continues to decrease in 2025, the number of curated MSMEs increases. Furthermore, from 2023 to 2025, the number of assisted MSMEs that successfully engaged in export activities increased, with export values reaching USD 723 million in 2025. These trends indicate the growing export potential of Indonesian MSMEs and suggest that the DGCE empowerment initiatives have contributed to strengthening their export readiness and market participation. However, these work programs have not yet had a significant impact on the KITE IKM policy. Despite the MSME Empowerment Program's objective of expanding the number of KITE IKM beneficiaries, the program has not yet succeeded in achieving its target.

The low level of SME participation in the use of the KITE IKM facility is influenced not only by administrative factors and policy outreach but also by the level of SMEs' readiness to manage export activities. Nugroho (2022) emphasizes that the transformation of SMEs requires support in the form of digital and financial literacy so that business owners can access broader markets, understand business opportunities, and make sound business decisions. Another obstacle to the implementation of the KITE IKM policy is the alignment of MSME business processes with the KITE IKM criteria, requirements, and procedures. Furthermore, there is currently no sustained cooperation or synergy with agencies outside the Ministry of Finance. This synergy is crucial for disseminating the policy more widely, as these agencies share the same objective: boosting MSME exports. In the context of KITE IKM, the successful implementation of the policy cannot rely solely on the DGCE as the primary implementer; it also requires collaboration with technical ministries, local governments, financing institutions, and SME support organizations to ensure that the process of enhancing the export capacity of SMEs proceeds sustainably.

4.2 Output and Outcome Achieved

The KITE IKM policy output has not yet yielded optimal results. For example, the number of users of KITE IKM facilities has not increased significantly. In fact, the number of beneficiaries of KITE IKM facilities has also declined. Support programs, such as MSME empowerment, have also failed to increase the number of KITE IKM beneficiaries. The DGCE, through the Directorate of Customs Facilities, reports on policy outcomes via macro-level evaluation reports covering the number of workers, the value of additional investment, the amount of export foreign exchange, and the value of the granted facilities. These macro-level outcomes are subject to significant fluctuations and are influenced by several factors. Table 5 shows these macro-level outcomes.

Table 5. Changes in the number of beneficiaries, number of employees, value of export foreign exchange, and value of investment for KITE IKM beneficiaries from 2017 to 2024

Year	**Number of Registered Facility Beneficiaries**	**Number of Labor Force**	**Exports Value (Million USD)**	**Increase in Investment (Billion IDR)**
2017	43 companies	9,955 people	3.11	31.65
2018	65 companies	8,989 people	12.93	64.93
2019	85 companies	4,889 people	23.11	61.67
2020	99 companies	11,938 people	29.49	44.35
2021	111 companies	14,991 people	43.69	86.12
2022	119 companies	18,043 people	67.16	180.20
2023	123 companies	16,291 people	75.09	166.40
2024	126 companies	14,607 people	73.21	152.10

In line with the objectives of the KITE IKM facility, policy outcomes can be assessed through the export foreign exchange earnings generated by KITE IKM beneficiaries. Data from the KITE macro evaluation reports indicate that export foreign exchange earnings associated with the KITE IKM facility increased steadily from 2017 to 2023, corresponding to the growing number of beneficiaries. In 2024, however, although the number of KITE IKM beneficiaries continued to rise, export foreign exchange earnings experienced a slight decline. Assessing policy outcomes based on foreign exchange export earnings remains challenging, as these earnings are influenced by various factors, particularly global market conditions. In addition to the external factors affecting international trade and export performance, the DGCE has not established quantitative targets for the export foreign exchange earnings generated by KITE IKM beneficiaries. Consequently, the achievement of this outcome indicator cannot be measured against predetermined benchmarks.

Employment is another indicator used to measure policy outcomes. Consistent with the significant role of MSMEs in job creation, the DGCE reports the number of workers employed by the KITE IKM beneficiaries as of the policy's achievements. As shown in Table 5, the number of employees among KITE IKM beneficiaries increased in line with the growing number of firms receiving the facility. However, this figure does not reflect the increase in employment among each beneficiary that may have resulted from the utilization of the KITE IKM facility. The same limitation applies to the capital addition values presented in Table 5.

The DGCE also evaluates the fiscal impact of KITE IKM through indicators related to the beneficiaries' tax contributions. Customs incentives provided under the scheme, including exemptions from import duties and the non-collection of VAT and Luxury Goods Sales Tax (LGST), reduce production costs and enhance price competitiveness, which may lead to higher sales and business profits. As business income increases, the potential contribution to corporate income tax revenue also increases. The tax contributions generated by KITE IKM beneficiaries, based on the DGCE's macro evaluation reports for 2023-2025, are shown in Figure 5**.**

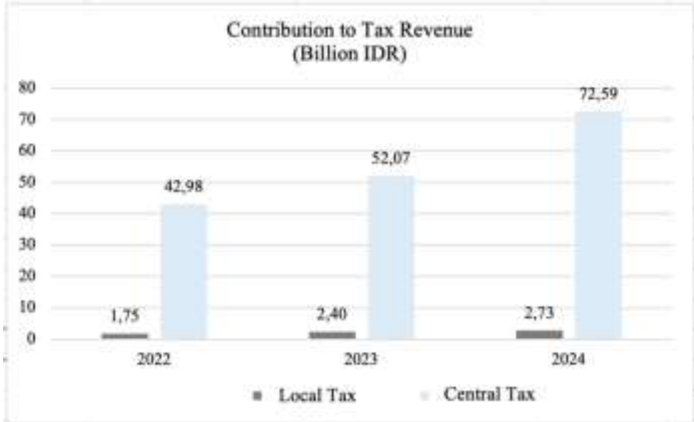

Figure 5. Contribution of KITE IKM beneficiaries to Tax Revenue

All KITE IKM beneficiaries are registered business entities that possess a Business Identification Number (NIB) and a Taxpayer Identification Number (TIN). From an administrative perspective, these requirements indicate that KITE IKM is a policy targeted at SMEs that have already attained a certain level of financial literacy. Conceptually, higher financial and business literacy levels are associated with a greater understanding of the importance of business legality and tax compliance. According to the DGCE, local tax contributions refer to taxes paid by KITE IKM beneficiaries to local government treasuries, while central government tax contributions refer to taxes remitted directly to the state treasury, including the Value-Added Tax (VAT). As shown in Figure 5, both local and central government tax revenues increased with the growing number of firms benefiting from the KITE IKM facility. However, these aggregate figures do not necessarily reflect the tax compliance behavior of individual KITE IKM beneficiaries.

These outcomes do not fully reflect the changes expected from the KITE IKM facility policy. The performance of each KITE IKM beneficiary company is a more accurate indicator of the policy’s outcomes. The objective of the KITE IKM policy is to improve the quality of KITE IKM entities’ businesses; therefore, the number of KITE IKM beneficiaries who have scaled up their operations would serve as a more representative measure of the policy’s outcomes.

Table 4 shows, 11 companies between 2017 and 2025 had their benefits revoked because they had moved up a tier or scaled up their business from middle-sized to large scale. This means that these companies no longer meet the KITE IKM criteria. However, this number only represents companies that expanded their business from medium to large scale. Meanwhile, the DGCE does not track or report companies that scale up from small to medium-sized. However, this figure is the most appropriate outcome for measuring policy objectives. In addition, the KITE IKM facility, which is intended for the purchase of imported machinery, can also be treated as an increase in the company's capital. Overall, the available evidence suggests that KITE IKM has the potential to support business expansion and industrial upgrading among the beneficiary firms. However, the lack of comprehensive data on firm growth across all business scales makes it difficult to fully assess the extent to which the policy has achieved its objective of strengthening the competitiveness and development of small- and medium-sized industries.

4.3 Factors Affecting Policy Implementation

4.3.1 Policy Content

The first aspect is the interest affected. KITE IKM is a highly targeted policy aimed at small- and medium-sized industries with specific business processes. Although the policy is designed as a fiscal incentive to support businesses in promoting exports, its effective implementation requires more intensive outreach to industries with export potential to be effective. The beneficiaries of the KITE IKM facility generally recognize the importance of the policy and understand its benefits. Nearly all beneficiaries stated that their businesses would be adversely affected in the absence of the program. The perceived impacts include difficulties in obtaining raw materials and production machinery, reduced profitability, increased production costs, greater challenges in competing, particularly in international markets and disruptions to the flow of goods and materials. Policymakers, implementers, and beneficiaries alike have come to understand the importance of this policy. However, the implementation of the KITE IKM policy has yet to be fully optimized and requires greater effort, particularly in terms of outreach that is more specifically targeted at industrial sectors with high potential and that align with the characteristics of KITE facilities.

The second aspect is the type of benefit. The primary benefits of the KITE IKM policy, in the form of fiscal incentives, have positively impacted the program's beneficiaries, particularly in reducing production costs, improving corporate cash flow, enhancing the competitiveness of export products, and increasing the workforce. According to the 2025 macro evaluation report on the economic impact of the KITE IKM facility, most beneficiaries indicated that it had generated significant benefits for their businesses. This finding reflects the positive perception of beneficiaries toward the role of KITE IKM in supporting business performance and competitiveness. The detailed responses of the KITE IKM beneficiaries regarding the benefits of the facility are presented in Figure 6.

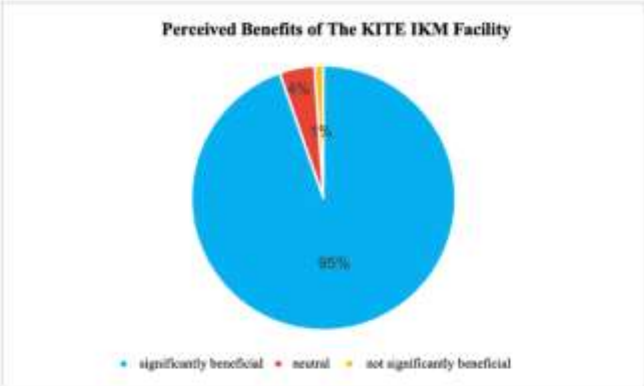

Figure 6. Perceived benefits of the KITE IKM facility

However, the benefits experienced still vary among companies depending on their business conditions, administrative readiness, and the business models of the recipients. Furthermore, the benefits of the policy are not yet considered sufficiently attractive by some potential SMEs, as their primary needs extend beyond fiscal incentives to include access to capital, marketing support, and certainty regarding export markets.

The third aspect is the extent of the envisioned change. According to Grindle (2017), policies that require limited behavioral change and adaptation from beneficiaries tend to be easier to implement. For existing KITE IKM beneficiaries, the utilization of fiscal incentives generally does not require significant adjustments, as their business operations already meet the scheme requirements. Nevertheless, increasing the number of export-oriented SMEs participating in KITE IKM is challenging. The scheme targets SMEs with specific business characteristics and export-oriented production processes, meaning that only a limited segment of SMEs can satisfy the eligibility criteria. Consequently, broader policy objectives related to expanding SME participation in exports may require additional outreach, assistance, and capacity-building efforts.

The change expected from the provision of facilities is the creation of better business conditions for the recipients or beneficiaries compared to before they received the facilities. However, this change has not yet been formulated into standardized and measurable quantitative targets for each recipient or beneficiary company. The evaluations conducted are still general in nature through macro evaluation reports, while measurements at the company level are conducted through micro evaluations and have not yet demonstrated an in-depth analysis of the extent of change achieved by each company.

The fourth aspect is the site of decision making. The implementation of the KITE IKM policy demonstrates that the decentralization of authority to the Customs and Excise Controlling and Servicing Office (KPPBC) provides flexibility for each unit to adapt policy implementation to the conditions of its jurisdiction. As the units closest to the beneficiaries of the KITE IKM facilities, KPPBCs play a strategic role ranging from policy formulation, service delivery, and supervision to enforcement actions against KITE IKM beneficiaries. This arrangement enables a faster decision-making process that is more responsive to the needs of business operators. However, the extent of this authority also leads to differences in the approach among KPPBCs in implementing the policy, particularly in balancing the priority between increasing the number of beneficiaries and exercising caution to ensure the accuracy of beneficiary targeting. These considerations are influenced by the characteristics and economic conditions of each operational area. Therefore, the implementation of the KITE IKM policy indicates that the authority granted to KPPBCs is appropriate for addressing local operational requirements. Nevertheless, effective implementation also depends on maintaining a common understanding and alignment of policy objectives among implementing actors, ensuring that the provision of KITE IKM facilities is carried out consistently and contributes to the achievement of national policy objectives.

The fifth aspect is program implementers. There is a relatively clear division of tasks and authority within the Directorate General of Customs and Excise. The Customs and Excise Controlling and Servicing Office (KPPBC) serves as the primary implementor, interacting directly with facility recipients or KITE IKM beneficiaries through service provision, assistance, monitoring, and supervision, while the Customs and Excise Regional Office and Directorate of Customs Facilities perform coordination, evaluation, and policy advisory functions. This division of roles supports the smooth implementation of the program because decision-making resides within a single organization with clear, hierarchical coordination channels. Additionally, the competence and understanding of program implementers at the KPPBC further support the mentoring process for KITE IKM beneficiaries, thereby making it easier for business operators to comply with applicable regulations.

However, the successful implementation of KITE IKM cannot solely depend on the DGCE. Efforts to expand the utilization of the facility require cooperation among multiple stakeholders, including government ministries, local agencies, academics, and industry practitioners, particularly in identifying and engaging potential SMEs that the program has not yet reached. Thus, while the existing implementation structure provides a solid foundation for policy delivery, wide geographical coverage and limited access to the target group continue to pose challenges. Therefore, strengthening inter-agency coordination and collaboration is essential for improving policy outreach and achieving broader implementation outcomes.

The sixth aspect is the resources committed. The findings suggest that both human and financial resources are critical determinants of KITE IKM implementation, as they directly influence the capacity of implementing agencies to conduct outreach, provide assistance, monitor beneficiaries and achieve policy objectives. In terms of human resources, the implementation of KITE IKM has been supported by personnel who generally possess adequate understanding and competence regarding business processes and the provisions of the KITE IKM facility. However, the number of personnel at the KPPBC needs to be adjusted in line with the number of KITE IKM beneficiaries and the potential for MSME exports within its jurisdiction. Although dedicated KITE IKM personnel are not available in all KPPBCs, flexible task allocation based on the needs of each office has enabled the continued implementation of key activities, including service provision, technical assistance, Monitoring, and Evaluation (M&E). Human resource capacity has also been enhanced through training, internalization programs, knowledge transfer, and guidance from the Directorate of Customs. Nevertheless, staff rotation and turnover remain challenges, as they may disrupt the continuity of institutional knowledge and require additional efforts to transfer information related to the historical cases and characteristics of KITE IKM beneficiaries.

From a budgetary perspective, at the outset of the policy's implementation, there was a specific allocation for its development. However, over time, this budget has been integrated into the general budget line for customs services and guidance, and is no longer specifically allocated for KITE IKM. This means that the implementation of KITE IKM depends on the priorities of each individual work unit. Despite these challenges, the implementation of the KITE IKM policy has been sustained because of the availability of resources that are generally adequate to support policy operations. Nevertheless, limited budget allocations and the program's wide geographical coverage remain significant constraints, particularly in efforts to identify potential beneficiaries and broaden the utilization of the KITE IKM facility.

4.3.2 Context of Policy Implementation

Policy context factors related to the policy environment have three aspects: (1) the power, interests, and strategies of the actors involved. At the central level, attention to KITE IKM is influenced by global dynamics and other more urgent policy priorities, particularly those related to large-scale industries and customs facility oversight. However, at the regional level, such as at the Customs and Excise Controlling and Servicing Office (KPPBC), the KITE IKM policy remains a key priority as it directly relates to service delivery, oversight, and the empowerment of export-oriented SMEs within their respective jurisdictions. To support policy implementation, the DGCE has also developed strategies through the Export Clinic (*Klinik Ekspor*) and Customs Facilitation Agent (*Agen Fasilitas Kepabeanan*) programs as a broader means of empowering export-oriented SMEs. Additionally, synergy with other agencies, such as local governments and relevant ministries, has not yet been optimally realized in all regions. Cross-agency collaboration is essential for identifying potential SMEs, expanding outreach, and supporting the development of export-oriented SMEs that can utilize KITE IKM facilities. Based on Grindle (2017) implementation context perspective, a policy's effectiveness is significantly influenced by the relationships among the actors involved in its implementation. Although KITE IKM falls under the authority of the DGCE, achieving policy objectives in practice requires support from various other agencies that play a role in the development of export-oriented SMEs. Research findings indicate that such inter-agency coordination and synergy have not yet functioned optimally, resulting in programs that tend to operate in a sectoral manner. This situation aligns with perspective. Nugroho (2022), who emphasized the importance of building an SME ecosystem through the integrated involvement of various stakeholders. Therefore, optimizing the implementation of the KITE IKM program requires an approach that focuses not only on fiscal and customs aspects but also on strengthening the export SME ecosystem through more integrated collaboration between agencies.

The second aspect is the institutional and regime characteristics. The implementation of the KITE IKM policy has been supported by a clear organizational structure within the DGCE, which integrates central and regional units. The Directorate of Customs Facilities serves as the policy formulator, whereas the Directorate of Customs and Excise Information supports the technological system. Meanwhile, the full delegation of authority to the Customs and Excise Controlling and Servicing Office (KPPBC) enables service delivery, oversight, and decision-making processes to be carried out more swiftly and in closer proximity to KITE IKM beneficiaries in the regions. Coordination between the central office and regional units also occurs through formal and informal communication channels, which support the real-time resolution of implementation challenges. Nevertheless, the implementation of the KITE IKM policy still faces challenges due to limited geographical coverage, as KPPBC offices are not yet distributed across all potential regions, thereby requiring adequate budgetary support to reach SMEs more broadly. Additionally, the DGCE's organizational characteristics, including a system of employee rotation and transfers, impact policy implementation, particularly regarding the continuity of understanding historical cases of KITE IKM beneficiaries.

The third aspect is compliance and responsiveness of the government. The level of compliance and responsiveness among policy implementers has generally supported the achievement of policy objectives. Policy implementors, particularly the KPPBC, have carried out their duties in accordance with applicable regulations from determining facility recipients or beneficiaries, providing services, and conducting oversight to monitoring and evaluation all of which are reinforced through internal oversight. Although challenges persist owing to differences in understanding among staff, particularly during transfers or rotations, these can be addressed through coordination and knowledge transfer. Additionally, facility beneficiaries assess KPPBC's services as responsive and supportive of their needs through assistance, intensive communication, and coordination with central units, which are further supported by service performance indicators and feedback from the facility's beneficiaries. On the other hand, DGCE monitors the compliance of KITE IKM beneficiaries with their business processes through monitoring and evaluation activities as stipulated in Ministry of Finance Regulation No. 216/PMK.04/2022.

5. Conclusions

5.1 Conclusion

This study analyzed the implementation of the KITE IKM policy in Indonesia using Grindle's policy implementation framework, focusing on policy content, implementation context, outputs, and outcomes. The findings indicate that the KITE IKM policy has generally provided positive benefits to beneficiary firms, particularly in terms of reducing production costs, improving cash flow, enhancing export competitiveness, and supporting business growth. The policy also contributes to export development, investment growth, and employment generation among export-oriented MSMEs. The Directorate General of Customs and Excise (DGCE) has implemented various initiatives, including policy outreach, business matching, Export Clinics Program, and Customs Facilitation Agents, to increase the utilization of the facilities. In general, the implementation of the KITE IKM policy in Indonesia has been carried out in accordance with existing regulations.

However, several challenges were identified, including limited policy outreach, the mismatch between MSME business processes and KITE IKM requirements or mechanisms, varying levels of export readiness among SMEs, and the lack of sustained collaboration between the DGCE and other institutions involved in SME development. In addition, policy evaluation remains focused on macro-level indicators and has not yet adequately measured the extent of business development achieved by individual beneficiaries of the project.

From the policy content perspective, the benefits of the facility are recognized by beneficiaries, although fiscal incentives alone are not always sufficient to attract potential participants. The findings indicate that the effectiveness of KITE IKM is determined not only by fiscal incentives but also by business readiness, market access and export sustainability. From the implementation context perspective, institutional coordination, stakeholder involvement, and organizational capacity play significant roles in determining policy effectiveness. Overall, the study concludes that while KITE IKM has generated positive outcomes for participating firms, improvements in the implementation mechanism, inter-agency collaboration, and more comprehensive performance measurement are necessary to maximize the policy's effectiveness and sustainability.

5.2 Research Limitations

This study had several limitations. First, the research adopted a qualitative approach that relied on interviews and document analysis, which may limit the generalizability of the findings to all KITE IKM beneficiaries in Indonesia. Second, the study primarily focused on the perspective of policy implementers and a limited number of beneficiaries, which may not fully capture the diversity of experiences among MSMEs across different industrial sectors and regions. Third, the analysis was constrained by the availability of policy evaluation data, particularly at the firm level, as existing monitoring and evaluation mechanisms largely emphasize macro-level performance indicators.

5.3 Suggestions and Directions for Future Research

Based on the findings, future policy improvements should focus on strengthening policy outreach and assistance programs that are specifically targeted at export-ready MSMEs and industrial sectors that match the characteristics of the KITE IKM facility. Greater collaboration among the Directorate General of Customs and Excise, technical ministries, local governments, financial institutions, and business support organizations is also necessary to create a more integrated MSME export development ecosystem. In addition, the policy evaluation mechanism should be enhanced by incorporating firm-level performance indicators to better measure policy outcomes and business transformation among beneficiaries. For future research, quantitative studies involving a larger number of KITE IKM beneficiaries are recommended to assess the relationship between policy implementation factors and business-performance outcomes. Comparative studies across regions, industrial sectors, or fiscal incentive schemes may also provide deeper insights into the factors affecting policy effectiveness. Furthermore, future research could explore the long-term impacts of KITE IKM on firm competitiveness, export sustainability and MSME upgrading processes.

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Author Contributions

LNJ conceptualized the study, collected and analyzed the data, interpreted the findings, and prepared the original manuscript. BYN contributed to shaping the research framework, supervision, critical review, and revision of the manuscript. Both authors have reviewed and approved the final manuscript for publication.

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