

## Driving microfinance institutions roles to enhance coastal zone's life

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World Journal of Advanced Research and Reviews, 2026, 29(01), 1733-1743

Publication history: Received on 18 December 2025; revised on 27 January 2026; accepted on 29 January 2026

Article DOI: <https://doi.org/10.30574/wjarr.2026.29.1.0241>

### Abstract

Coastal communities represent the majority of the world's poor population. In Indonesia, the percentage of poor people in coastal areas reaches 11.02%. Most of them earn their living as fishermen, fish farmers, and various other small-scale businesses. To reduce poverty and improve their welfare, contributions from various institutions, including financial institutions, are needed. This research aims to explore the role of microfinance institutions in providing easy access to finance for coastal communities to help improve their welfare. To achieve this goal, researchers conducted action research in the northern coastal area of the island of Java, precisely in Mertasinga Village, Cirebon Regency. Data was obtained through observation and interviews. The research results show that microfinance institutions in the area are very popular with the community to support their economic activities. Substantially, the presence of microfinance institutions plays a significant role in the rural economy, namely to fulfil the community's need for financial institutions naturally. However, the role of microfinance institutions is still passive. Henceforward, the role of microfinance institutions needs to be increased by empowering them as sources of information on village economic activities for local governments and as formal financial institutions that are the lifeblood of the village economy, pointedly fishing communities.

**Keywords:** Microfinance Institutions; Cooperatives; Coastal Community; Fisheries Sector; Economic Development.

### 1. Introduction

Macroeconomic and development policies are typically based on national indicators and statistics. However, these indicators may not always describe the realities of rural economic activities, so often the economic policies made by the government do not fit with the needs of rural populations. As a result, it marginalizes their economic activities (Chen et al., 2023).

All Indonesian people, including the coastal communities, really yearn for the immediate realization of a developed fair - prosperous, and peaceful national and state life. However, almost 79 years after independence, Indonesia is still a developing country with high unemployment and poverty rates, a wide gap between rich and poor, low economic competitiveness, and a low HDI (Human Development Index). These conditions also occur in coastal areas.

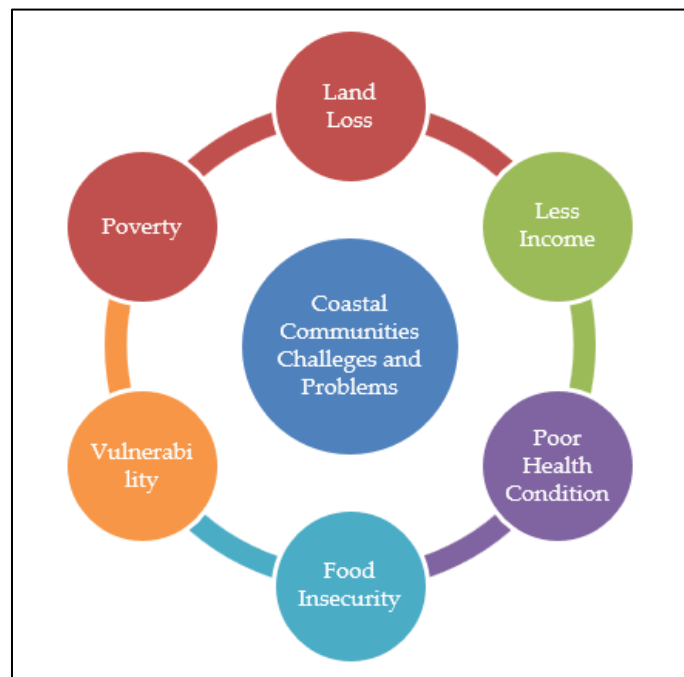
According to the data, coastal communities represent the majority of the world's poor population (Barbier, 2015; Yanda et al., 2023). In Indonesia, for example, the amount of people living below the poverty line in coastal areas is 11.02 percent, while in non-coastal areas, it is 8.67 percent (Alfiyah, 2023). Regarding the food crisis and nutrient fulfilment, this phenomenon contributes to a staggering prevalence of stunting, reaching 30.8 percent in Indonesia's coastal areas, surpassing the global average of 22.2 percent (Yuliantini et al., 2022). The majority of them work as Small-Scale Fishers (SSF), facing significant struggles in their livelihoods, and as a consequence they are vulnerable communities (Stacey et al., 2021).

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Data for 2021 shows that the north coast region of West Java has a population of 48,782,400 people, with the number of poor people in March 2023 amounting to 3.89 million people. In 2011, West Java province ranked 16th out of 33 provinces on the Human Development Index (HDI). In 2023, the HDI achievement of West Java Province will be 74.24, which means it is in high status. West Java Province's HDI increased compared to the previous year, which only touched 73.12.

The performance of regional economic development can be seen from the Gross Regional Domestic Product (GRDP), which is a macroeconomic indicator that can be used to see the level of development and economic structure in the North Coast region of West Java. Based on the publication of Cirebon Regency in Figures for 2023 published by Central Bureau of Statistics, the distribution of Cirebon Regency's GRDP is dominated by the industrial sector which reached 20.59%. Then sequentially achieved by the Agriculture, Forestry and Fisheries sectors amounting to 15.57%; Wholesale and Retail Trade, Car and Motorcycle Repairs by 14.21%; Construction was 11.17%; Transportation and Warehousing at 8.81%; and Education Services at 6.20%. Meanwhile, the role of other business fields is below 5% each.

The problems and challenges of the development of coastal regions are various. The problems show in the figure below:



Source: Adapted from (Barua et al., 2020)

**Figure 1** Coastal Communities Challenges and Problems

Moreover, lack of education, the high unemployment rate, one of the causes of which is the low capacity of human resources in managing marine and fishing (Hendarto, 2019), investments that have not been able to increase linkages with local businesses and employment opportunities, management and development of agriculture and fisheries are not yet optimal, poor infrastructure availability and quality, and coastal community access to financial institutions is not yet optimal. Undoubtedly, good access to financial institutions will also build good resilience for their lives (Deutz et al., 2018).

A subsistence rural economy will be able to be built and developed more quickly if it is brought into modern economic activity, namely the monetary economy or monetization (Mehvar et al., 2018). A rural economy that has not been monetized will cause people not to get used to saving. As a result, they are not prepared to face a worsening economy (for example, crop failure or fishing failure) and are unable to raise capital. Conditions like this will "force" village communities to look for informal financial institutions such as loan sharks and middlemen.

Since the early 1980s, a network of financial institutions in the form of banks and non-banks was developed by establishing unit banks or People Credit's Bank (known as BPR) in sub-districts throughout Indonesia. Specifically, in Mertasinga Village, Gunung Jati District, Bank Rakyat Indonesia Village Unit and other types of cooperatives have long been established and developed to meet the needs of fishermen and village fishing workers. Apart from that, there is

another form of rural financial institution that is growing in Mertasinga Village, namely the Village Unit Cooperative (also known as KUD). This institution is often regarded as a microfinance institution.

The limited access to financing sources faced by rural communities, especially from formal financial institutions such as banks, causes them to depend on informal sources. The forms of these sources vary from money lenders (loan sharks) to developing in the form of savings and loan units, cooperatives and other forms. In the transformation, these informal financial institutions have become more popular among rural communities because they are more flexible, for example in terms of terms and loan amounts that are not as strict as banking requirements or flexibility in credit disbursement. This is an indicator that the existence of informal financial institutions meets the needs of village communities, who generally require financing according to the scale and nature of small businesses. These informal financial institutions are referred to as microfinance institutions.

Unfortunately, microfinance institutions still lack a clear role in the national economy, unlike other financial institutions such as bank, insurance companies, and financial technology companies. This is different when compared to the existence of microfinance institutions, which have clearly contributed to rural communities. Government efforts to alleviate poverty have primarily focused on transfers or subsidies, though this approach does not always address the root causes of poverty. A more effective solution is breaking the cycle of poverty by providing the poor with greater access to productivity (Efani et al., 2022). This makes microfinance institutions a key pillar of the national financial system in improving the welfare of rural communities.

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## 2. Material and methods

To achieve the research objectives, this study employs a qualitative approach with action research methods. In action research, researchers simultaneously act as participants and as researchers who analyze the action. There are several steps in this method, such as gathering data related to the problems being studied, developing strategies to answer the problems, executing actions through the implementation of change, observing and analyzing the outcomes of the implementation of the change, reflecting on the effectiveness of the solutions, and determining further actions (Goral et al., 2021; Hasan, 2009; VSO, 2019).

Astronomically, Cirebon Regency is located between 108° 40' and 108° 48' South Latitude, and between 6° 30' and 7° 00' East Longitude (BPS, 2024). The selection of Bondet beach in Mertasinga Village, Cirebon Regency, as a case study for this action research is deliberate and strategic. Mertasinga Village can provide an overview of the role of microfinance institutions in empowering the economic community in the northern sea coastal area of Cirebon regency. Furthermore, the interaction between microfinance institutions, coastal communities, and economic development is unique and complex.

We conducted interviews and observations to gather data. The interviewees were selected using purposive sampling because the population size is uncertain due to the highly heterogeneous nature of the community. This is caused by the very heterogeneous structure of society. Based on several considerations, the research focused on three places in Mertasinga Village, namely (1) Village Unit Cooperative, (2) Bondet Beach Fishermen's Community, and (3) Mertasinga Village Community.

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## 3. Results and discussion

### 3.1. The Role of Microfinance Institutions

The study of rural economy cannot ignore the economic actors of rural communities who are generally micro and small scale. Empowering small businesses is seen as a key driver of the rural economy, which in turn can stimulate overall economic growth. This is inseparable from the strategic role of small businesses both in terms of quality and in terms of their ability to increase income and absorb labor. Bank Indonesia noted several strategic roles of these small businesses, including: (1) Their large number and presence in every economic sector, (2) great potential in absorbing labor because every investment in the small business sector can create more job opportunities than the same investment in medium/large businesses, and (3) Having the ability to utilize local raw materials and produce goods and services needed by the community at affordable prices.

The economic crisis of the late 1990s taught a valuable lesson: development focused solely on large-scale businesses is misdirected, particularly when aiming to promote equitable community welfare. At least two key lessons can be drawn from the crisis: First, the strategy of equalizing development results through the trickle-down effect approach is actually

difficult to implement. The concept of growth based on conglomeration has actually given rise to entrepreneurs who are not firmly rooted, so that the hope that development results can be distributed fairly has not been realized. Second, the development of the agricultural sector and fisheries sub-sector, or in a broader context, rural development, is the right choice to restore the national economy from crisis conditions.

Similarly, micro and small businesses require minimal capital but operate on a large scale. This small capital need, combined with the large number of businesses, makes formal banks less interested in financing them due to the high transaction costs involved. In addition, formal financial institutions generally treat small businesses the same as medium and large businesses in applying for financing, including the adequacy of collateral, capital, and business feasibility. These requirements are considered very burdensome for micro/small business actors in accessing formal banking institutions. The challenges micro and small businesses face in accessing formal banking services represent a significant market opportunity for microfinance institutions to explore.

Although in general the cost of microfinance loan funds is slightly higher than the bank interest rate, in terms of loan procedures/administration, microfinance institutions (especially non-bank microfinance such as cooperatives) have several advantages. One key advantage is that microfinance institutions typically do not require collateral, unlike formal banks. In some cases, loans are based on trust, as borrowers are often personally known to the microfinance manager. Additionally, loan disbursement and repayment are highly flexible, often tailored to the borrower's cash flow.

Specifically in the context of rural economic development, which is still dominated by the agricultural sector (including the fisheries sub-sector), the potential that microfinance can play in spurring economic growth in the community is very large. There are at least five reasons to support this argument. First, microfinance is generally located, or at least close to, rural areas so that they can be easily accessed by farmers, fishermen, or economic actors in the village. Second, rural communities prefer a short process and without many procedures. Third, farming and fishing businesses typically require smaller loans, making them well-suited to the financial capacity of microfinance institutions. Fourth, the proximity of the microfinance location and the village community allows microfinance managers to understand the characteristics of fishing businesses so that they can disburse credit in a timely manner and in the right amount; and fifth, the existence of socio-cultural links and personal-emotional relationships is expected to reduce the nature of moral hazard in credit repayment.

In macro terms, the existence of microfinance in rural areas can be a critical factor in effective poverty alleviation efforts in rural areas (Deutz et al., 2018; Santoso & Gan, 2019). Increasing access and provision of efficient storage, financing, and insurance facilities can build the empowerment of poor groups and their opportunities to escape poverty through (1) more certain and non-fluctuating consumption levels, (2) better risk management, (3) gradually having the opportunity to build assets, (4) developing their micro-businesses, (5) strengthening their income-earning capacity, and (6) being able to experience a better standard of living.

Without sufficient access to microfinance institutions, almost all poor households will rely on their own very limited financing capacity or on informal financial institutions such as loan sharks or middlemen. This condition will limit the ability of poor groups to participate in and benefit from development opportunities. Poor groups who generally live in rural areas and work in the agricultural and marine/fisheries sectors should actually be more empowered so that they can escape the cycle of poverty with greater access to microcredit or microfinance (Santoso & Gan, 2019). The agricultural sector (fisheries subsector) will of course remain a key sector in efforts to eradicate poverty and strengthen the rural economy.

According to the results of the study by the Directorate General of Financing and Risk Management, in order to achieve optimal results in rural economic development, a microfinance should have the following characteristics: (1) it does not follow conventional banking practices, especially by not requiring collateral or complex administrative procedures (2) the target groups are low-income individuals and micro-entrepreneurs, with financial services tailored to their specific needs, (3) using a group approach, either with or without a joint liability system that prioritizes a close relationship pattern as the main basis for managing risk, (4) the scope of microfinance activities can include financing for productive and consumptive economic activities, mentoring and education, collection activities, and other forms of activities needed by micro-entrepreneurs and the poor.

### 3.2. Factors Influencing the Development of Microfinance Institutions

The opening of microfinance institutions is a greater step to improve rural economic empowerment. By reducing the distance to microfinance institutions, rural communities will have easier access, leading to increased and more effective use of financial services. Several factors influence the development of unit banks and cooperatives.

Previous research found that the factors influencing the development of financial institutions, particularly unit banks, include regional potential, profit opportunities, central decisions (branches), cost efficiency, and government incentives. Meanwhile, the factors influencing the development of village unit cooperatives (KUD) are opportunities to gain profit and regional potential and the wishes of the community. In addition to their potential, microfinance institutions, especially cooperatives, face various challenges, including internal issues and unfavorable external conditions. The key obstacles to the development of microfinance in Mertasinga Village are as follows:

- There is no legal protection for businesses in the microfinance sector, so the risk of losses suffered by customers as a result of negligence in managing microfinance is still not sufficiently protected. Similarly, the risk of losses incurred by microfinance institutions cannot be transferred to other parties through a guarantee mechanism.
- The absence of legal provisions governing deposit guarantee institutions has resulted in microfinance (cooperatives) becoming less attractive institutions for people who want to place their savings in cooperatives, thus encouraging cooperatives to rely on more expensive financing sources.
- The low quality of human resources managing cooperatives leads to stagnant development, with little progress in cooperative activities or member engagement.
- Government encouragement for the existence and progress of cooperatives is still minimal, if any; it is only temporary.



**Figure 2** Mina Waluya Bondet Village Unit Cooperative (a), Village Credit Union (b)

### 3.3. Public Perception of Microfinance Institutions and Their Role in Community Economic Empowerment

Microfinance institutions carry out many activities in supporting the monetization process in the village. These efforts aim to support the growth and development of local businesses. Public perception indicates that microfinance institutions play a key role in monetizing villages by: (1) offering credit/financing with simple procedures, (2) providing business loans, (3) distributing aid funds, and (4) encouraging community savings (such as deposits or savings accounts).

Bank units and cooperatives (especially savings and loan cooperatives) are microfinance institutions that help develop business sectors in villages. Based on observations, the largest amount of credit supported is the trade sector, and then the fisheries sector. An important thing is the perception and expectation of rural people that village unit banks, as microfinance institutions, support the fisheries sector. In fact, however, the amount of credit allocated to sectors other than trade is lower. Microfinance institutions play an important role in improving the economic empowerment of the fishing village, Mertasinga Village. Microfinance institutions encourage changes in the income of the Mertasinga Village community. Around 90% of the village community considers that microfinance institutions have helped increase their income.



**Figure 3** Coastal Community's Activities

Meanwhile, if viewed in terms of changes in business turnover, respondents admitted to experiencing an increase after using microfinance. When viewed from the acceptance of workers, respondents said they were able to absorb a larger workforce after receiving credit. When viewed from welfare after receiving credit, around 65% of respondents admitted to experiencing an increase in welfare.

#### **3.4. The Government's Role in Empowering the Economy of Mertasinga Village**

The results of the study show that the people's economy is still a top-down policy and is still in the form of government political jargon alone, while the community does not understand the people's economic policy. This condition can be seen from the results of interviews with several village administrators who stated that the people's economy is the interest and policy of the central government, and the people's economic policy is not widely understood by the people.



**Figure 4** Fish Auction Place

This condition is indeed not much different from the national condition. Since the beginning of its development, the cooperative movement has encouraged people from different political beliefs and ideologies to work together in cooperatives. Ideally, cooperatives can be above the views of each ideology and political stream. As a matter of fact, cooperative development policies are often inseparable from the political color of the authority of those in power in government.

The problem is that those who hold cooperative authority do not have a cooperative background, so they are often not focused and often deviate from the "cooperative corridor". In the development of cooperatives alongside SMEs, there is



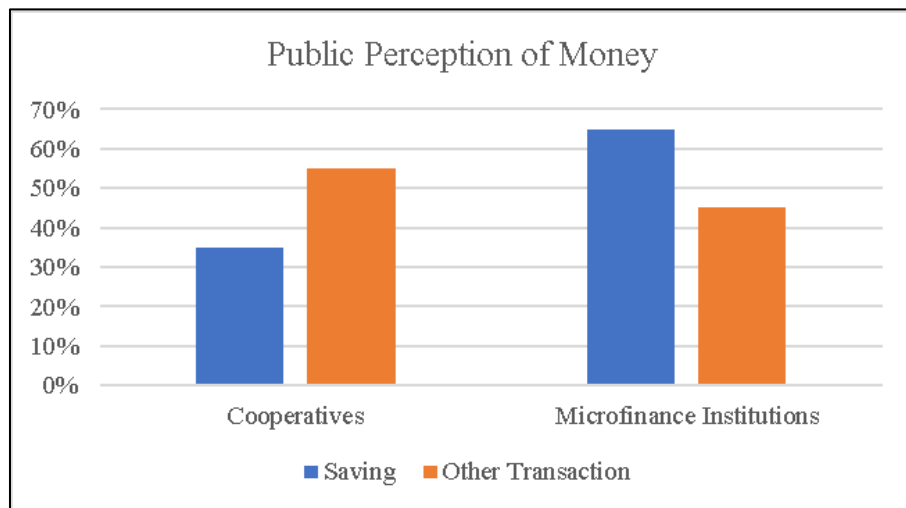
a stronger emphasis on prioritizing SMEs. This sentiment is strongly expressed by the management of the Mina Waluya Bondet Village Unit Cooperative, as conveyed by one of its managers.

### 3.5. Specific Business Activities Supported by Microfinance Institutions

A microfinance institution is an institution that can help find and improve the potential of each community. By making this business, it will grow and be able to increase income and employment absorption, so that in the end it can improve the welfare of the community in the area. In business activities, the majority of the population of Mertasinga Village are fishermen and fishermen laborers. Outside of this, there are also several other business activities carried out by other communities, such as trading, entrepreneurship, and even some people applying for financing for capital to become workers abroad (becoming TKW), as conveyed by a resource person named Asnan.

### 3.6. Public Perception of Money

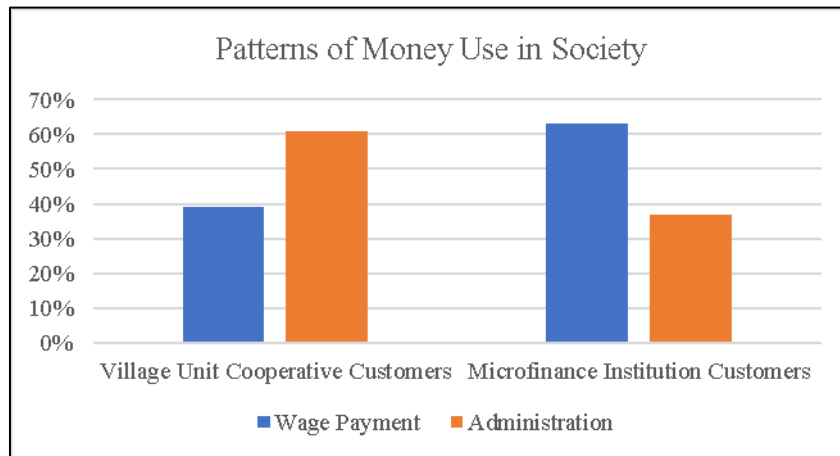
In running their business, microfinance customers do not obtain funding sources from one other microfinance; generally, they obtain funding sources from more than one microfinance located around their place. The community views money as a tool for conducting daily transactions. In addition, money is also one way to accumulate wealth. Based on the results of the study, it was found that more than 90% of microfinance customer respondents said that they often use money for daily transactions, namely for buying and selling activities, paying wages, administrative matters to the village office, making donations to events in the village, and for rental transactions.



**Figure 5** Public Perception of Money

The use of money in rural communities in general is to pay for economic activities, such as paying wages in the form of money. Other patterns of money use in rural communities that were studied were the use of money for invitation events such as weddings, circumcisions, and other celebrations, as well as the use of money to facilitate administrative activities in the village office. Microfinance institutions customers often use money for wage payment activities, giving

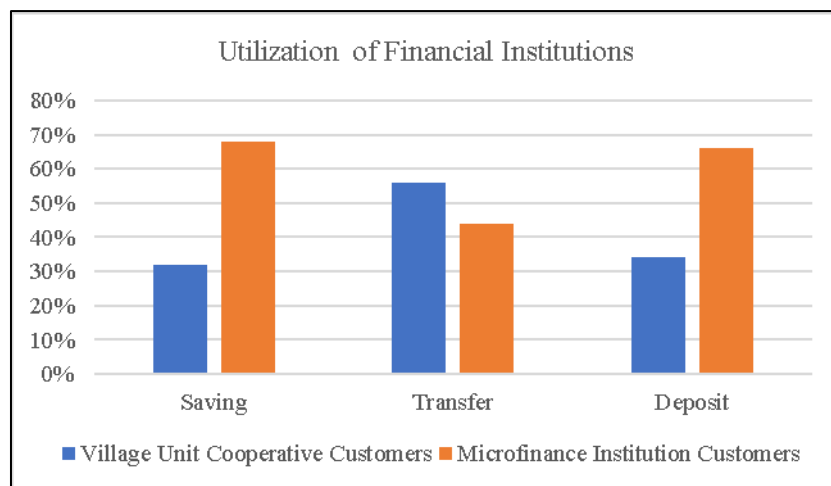
money at invitation events, and other activities such as rent. The most prominent use of money is wage payments, even in rural areas where microfinance customers are located.



**Figure 6** Patterns of Money Use in Society

### 3.7. Utilization of Financial Institutions by Village Communities

Rural communities use financial institutions primarily for saving money and borrowing credit. Microfinance customers support the idea of using financial institutions in rural areas for these purposes, although the ways in which they use these services may vary.



**Figure 7** Utilization of Financial Institutions by Coastal Communities

The pattern of community fund collection by microfinance institutions is in the form of savings. This is understandable, as the services offered are small-scale, and microfinance institutions do not conduct Giro disbursement operations like banks. However, in terms of development, microfinance institutions have experienced the highest growth in both funds collected and the variety of savings products offered.

### 3.8. The Role and Problems of Microfinance in Community Economic Empowerment

Essentially, microfinance institutions play a crucial role in the rural economy by meeting the community's natural need for financial services. However, the role of the existence of microfinance institutions is still passive. In the future, the role of this microfinance needs to be increased by empowering it as a source of information on village economic



activities for local governments and as a formal financial institution that is the lifeblood of the village economy, especially for fishing communities.

As financial institutions, unit banks, People Credit's Bank and Cooperatives have great potential in developing the people's economy, because the existence of microfinance has succeeded in building awareness of the importance and habits of people using financial institutions. The activities of most rural business units are highly diverse and cannot be easily categorized into a single economic sector. As a result, unit banks do not focus solely on the fisheries sub-sector when distributing credit. This diversity, however, is a strength of rural economic actors, as it reduces their reliance on a single type of product or business.

Based on the observation results, the business sector that received the most microfinance credit was the trade sector, followed by households (consumption), business sectors in the fisheries sub-sector, and business sectors in the service sector. However, because the scope of rural economic actors' businesses does not depend on one type of business sector, the sectoral division of business activities is not rigid.

In rural areas, bank financial institutions play a much larger and more prominent role in collecting community funds and distributing credit compared to cooperatives. This is because the institutional factors, human resources, capital, experience, and service offices of bank institutions are much superior and more professional than cooperatives.

Business sectors that use microfinance as a source of financing have market linkages with the rural, sub-district and district economy. In this case, the linkage in the procurement of inputs or raw materials is greater than the linkage in terms of output marketing. In other words, there is a dependency of the rural economies on the sub-district, and district economy.

The development of microfinance is influenced by factors such as the quality of service, location, and the distance of customers from the microfinance office. External factors include economic development, the level of competition, and community habits regarding the use of financial services. Observations also indicate that, aside from providing socio-economic infrastructure, local governments have been less proactive in empowering microfinance institutions to drive rural economic development.

Broadly, microfinance provides quite important contributions and benefits for the welfare of the Mertasinga village community, but the contribution of microfinance is not yet optimal. The limited role of microfinance, particularly cooperatives, in improving the economy of the fishing community is largely due to the numerous challenges faced by the cooperatives themselves. In addition to classic problems such as management, human resources, capital and competitiveness, these problems actually arise because there are other more complex problems that must be resolved first (Djohan, 2011).

First, cooperatives still depend on external parties. Cooperatives are autonomous, self-reliant and independent organizations controlled by their members. With such characteristics, cooperatives should not depend on external parties for their lives and activities. The reality is that there are still quite a lot of cooperatives whose lives and activities depend on external parties, especially on government facilities and initiatives. The Mina Waluya Bondet Village Unit Cooperative also experiences this situation. The pattern of cooperative development during several government periods has placed the government in a dominant position by providing various facilities. This situation has placed cooperatives as parties that are highly dependent on government facilities, and it continues to the current era.

Second, the cooperative's management is still poorly planned. Cooperatives in every activity, both in the context of empowering organizations and in the context of increasing businesses, are not based on mature planning so that programs can be run effectively and the results are optimal. Cooperative activities are still focused on projects that are often poorly executed and do not contribute to improving cooperative performance. Therefore, it is not surprising that many Villages Unit Cooperatives are reluctant to live and do not want to die. This situation is similar to what is experienced by the Mina Waluya Bondet Village Unit Cooperative.

Third, the development of cooperatives lacks coordination. In cooperative development, coordination among stakeholders is still lacking, with each party often working independently, while only the cooperative itself receives attention and development. Of course, the implementation is ineffective and overlapping.

Fourth, another issue is that cooperatives focus more on quantity rather than quality. Almost every year, cooperatives hold year-end meetings (RAT) that publish cooperative performance in figures including: number of members, capital, business volume, distribution of net income (SHU), and so on without qualitatively showing the increase in the form of

member welfare. The KUD Mina Waluya Bondet also experiences this issue, particularly during the Annual Member Meeting (RAT), where the focus is primarily on the distribution of net income (SHU), leading to overcrowding and lack of focus on other important aspects. It would be good if the performance of cooperatives was audited by an independent institution not only regarding physical data in the form of numbers but also the effects of cooperatives on the welfare of members and the surrounding community.

It is commonly known that cooperatives are not only economic institutions, but also have a social dimension. Cooperative values such as democracy, equality, justice, solidarity, honesty, social responsibility and concern for others are very thick with social values. In reality, the government and the cooperative movement have been trapped that the success of cooperatives is always indicated by data on increasing economic factors such as: business volume, assets, capital, distribution of net income (also known as SHU) and so on. Only a few mentions the process of how this performance is achieved as a social dimension, such as: how members participate in the democratic process, how concern for the community is realized.

The cooperative movement and the management of the Mina Waluya Bondet Village Unit Cooperative do not recognize the various problems described above as a "disease" that impedes the development of cooperatives into strong and healthy socio-economic institutions. These various problems are often considered commonplace and not a potential obstacle to cooperative development.

It is difficult to envision how cooperatives, as microfinance institutions, can effectively empower the economy and improve societal welfare when the cooperative movement itself is still grappling with issues they fail to recognize as the root cause of the problem, continuing with a "business as usual" approach. So, the therapy for these diseases is none other than returning to the role of cooperatives, namely returning to the identity of cooperatives.

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#### **4. Conclusion**

This study examined the role of microfinance institutions in driving economic activities of the fishing community. To do this, we analyzed data from interviews and observations. The analysis showed that to improve the community's economy and alleviate poverty, this can be done by breaking the chain of poverty itself, including by expanding community access to capital facilities that come not only from formal financial institutions but also from microfinance institutions.

Microfinance institutions can provide various types of financing to the community, though on a smaller scale than formal financial institutions. Nevertheless, they present a promising alternative, especially since the majority of people have not yet accessed financial services. Microfinance institutions are apparently able to help the community in encouraging economic activity and improving welfare. This large potential cannot yet be utilized optimally by the community, because microfinance institutions still face various obstacles and limitations, including overlapping institutional aspects, limited human resources in managing microfinance institutions, capital adequacy, and low public understanding of microfinance institutions. Cooperatives as microfinance institutions are still struggling with classic problems, namely low cooperative human resources, dependence on the government, some being project-oriented, prioritizing quantity over quality, and weak coordination between the cooperative movement and the government.

The limitations of this research include the availability of data throughout Indonesia, which would make the research broader, complete, and comprehensive. Future studies could deepen the understanding of the role of microfinance institutions in driving the economic activities of coastal communities.

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#### **Compliance with ethical standards**

##### *Acknowledgements*

This study did not receive specific grants from funding agencies in the public sector, commercial, or non-profit section.

##### *Disclosure of Conflict of interest*

We declare that we have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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