

Diaspora Networks as a Financial Catalyst: Navigating Global Markets for Kediri's SMEs in the Netherlands and Australia

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Abstract: *This study analyzes how diaspora networks serve as financial catalysts for 47 Micro, Small, and Medium Enterprises (MSMEs) in Kediri, focusing on the culinary and creative industry sectors. The research explores combining domestic resources with global diaspora networks to mitigate financial constraints during internationalization. A qualitative approach with a multi-case study design was employed. Data was triangulated using semi-structured interviews, digital and field observations, and document studies, and was subsequently analyzed via Cross-Case Synthesis. The findings reveal that diaspora networks in the Netherlands and Australia act as crucial "financial bridges" utilizing bonding, bridging, and linking social capital. Specifically, the Dutch diaspora predominantly supports culinary MSMEs through bonding social capital to help meet European food standards, while the Australian diaspora aids creative industries through bridging social capital by acting as business intermediaries. Digital capabilities and FinTech integration significantly strengthen these connections, enabling real-time capital flow, reducing international transaction costs, and mitigating information asymmetry. In conclusion, diaspora networks provide "patient capital" that successfully lowers the cost of capital and diversifies funding sources for local enterprises. To ensure sustainable integration into global markets, MSMEs must prioritize advancing their digital capabilities and maintaining strict product standardization.*

Keywords: Diaspora Networks; MSMEs; Social Capital; FinTech; Internationalization

INTRODUCTION

Transcending geographic boundaries is no longer merely an option for Micro, Small, and Medium Enterprises (MSMEs), but rather an existential necessity amidst dynamic shifts in global value chains. However, a paradox arises when substantial export potential is often hampered by "institutional voids" and systemic financial barriers in emerging markets (Bıçakcıoğlu, 2020). Amid limited access to formal financial institutions, diaspora networks emerge as a disruptive force capable of mobilizing resources across borders through a mechanism of dual embeddedness—a simultaneous integration between the country of origin and the country of destination (Vanninen et al., 2022). This diaspora phenomenon goes beyond population movement, but rather the formation of economic nodes that serve as "financial bridges" crucial for business continuity on the international stage (Apaydin, 2020).

Through the lens of Network Theory, the diaspora is understood as a provider of social capital in the dimensions of bonding, bridging, and linking, capable of transferring market

intelligence and acting as trust brokers to reduce transaction risk (Dizo-Conteh et al., 2025). The strength and frequency of these ethnic ties directly determine the effectiveness of internationalization, where trust becomes the primary currency, replacing the role of physical collateral in traditional financing (Totskaya, 2015). In the era of accelerating digital transformation, the function of this financial bridge is being redefined through the integration of information technology (ICT) capabilities and the adoption of FinTech (Adaba, 2026). The convergence of financial management, digital technology, and social ties significantly reduces operational barriers by accelerating transnational investment flows through more inclusive digital payment and crowdfunding platforms (Campanella et al., 2025).

The manifestation of the diaspora's role becomes even more crucial when considering the sectoral diversity that forms the backbone of the local economy (Osa, 2025). In the Kediri region, in the culinary and processed food product clusters—such as pecel sauce, various snack variants, and homemade chocolate—the diaspora network acts as an integrator of the global value chain, not only providing working capital but also facilitating the independent adaptation of international food safety standards. Meanwhile, in the creative industry sector, the diaspora functions as an information node connecting local aesthetics with global market preferences, thereby mitigating the risk of market failure due to information asymmetry (Jin et al., 2018). Despite this enormous potential, the effectiveness of this bridge is often tested by low digital literacy and the risk of exclusivity within informal networks, which can hinder sustainable growth (Roy, 2016; Elo, 2016).

Based on these dynamics, this study aims to analyze in depth how diaspora networks are optimized as financial catalysts for 47 MSMEs in Kediri, spanning the iconic culinary and creative industries sectors. The novelty of this study lies in its strategic exploration of combining domestic resources with the strengths of global diaspora networks to mitigate financial constraints at various stages of internationalization. Through this case study, it is hoped that a collaborative model can be found that can synergize informal social network support with financial technology innovation to create a robust funding ecosystem for local MSMEs to compete in the global market.

While diaspora networks hold great promise as financial catalysts, their effectiveness is often hampered by information fragmentation and profound trust asymmetries in emerging markets (Wandoko, 2017). As identified in recent literature, complex regulatory barriers and a lack of transparency mechanisms often limit the flow of capital from informal networks to the productive sectors of MSMEs (Gevorkyan, 2022). In this context, this study argues that successful internationalization depends not only on the availability of networks but also on the ability of MSMEs to convert social capital into measurable financial capabilities. Without synchronization

between diaspora support and strengthened internal financial governance, network exclusivity risks creating dependency that hinders long-term innovation (Totskaya, 2015). Therefore, a deeper understanding of how the interaction between bonding social capital and sophisticated information technology can create a more resilient and transparent financing ecosystem for small businesses is necessary.

Contextualizing the research on 47 MSMEs in Kediri provides a unique empirical dimension because it covers a diverse spectrum of industries with varying levels of network dependency. The selection of research subjects, ranging from the traditional culinary sector to the modern creative industry, allows for a comparative analysis of how financial bridge mechanisms operate across different product characteristics. As emphasized by Jin et al. (2018), MSMEs in less technology-intensive industries often rely more on the strength of personal relationships to penetrate foreign markets. By examining the dynamics of 47 business entities in Kediri, this study not only documents informal financing practices but also evaluates the effectiveness of community-based internationalization strategies in the face of global competitive pressures. This multi-case approach is expected to provide stronger analytical generalizations for policymakers in designing financial support schemes that integrate the potential of the diaspora with the specific needs of MSMEs at the local level.

LITERATURE REVIEW

Network Theory: The Relational Foundation of Internationalization

Network Theory argues that a company's internationalization process does not occur in a vacuum, but rather results from strategic interactions within social and business networks (Vanninen et al., 2022). For Micro, Small, and Medium Enterprises (MSMEs), networks are not merely a supporting tool but a strategic asset that replaces the role of formal institutions. In this context, the success of global expansion is largely determined by a company's ability to leverage its position within transnational network nodes. A key concept in this theory is trust, where in environments with minimal physical security, relational ties act as a guarantee mechanism that reduces information asymmetry between MSMEs and foreign partners (Totskaya, 2015).

Dual Embeddedness and the Role of Diaspora Networks

Diaspora networks possess a unique characteristic known as dual embeddedness, the ability of actors to be simultaneously embedded in the institutional environments of both their country of origin (Indonesia) and their host country (Vanninen et al., 2022). This dual embeddedness enables the diaspora to function as a "financial bridge" capable of efficiently mobilizing capital and transferring market intelligence. Diasporas act as trust brokers, validating the credibility of

MSMEs, thereby helping them overcome institutional voids or formal banking barriers often found in emerging markets (Dizo-Conteh et al., 2025).

Dimensions of Social Capital: Bonding, Bridging, and Linking

The use of diaspora networks in facilitating the financial needs of MSMEs can be analyzed through three dimensions of social capital (Mohiuddin, 2023; Anwar et al., 2023):

1. Bonding Social Capital: Refers to strong ties based on family or close relatives who provide initial financial support (seed funding) through trust-based soft loan mechanisms.
2. Bridging Social Capital: Includes external connections with the wider diaspora community, which facilitates access to new financial resources, market knowledge, and global collaboration opportunities.
3. Linking Social Capital: Connecting MSMEs with formal financial institutions or international financing platforms through diaspora mediation to increase transnational financial inclusion (Anwar et al., 2023).

Digital Acceleration: FinTech and ICT Capabilities

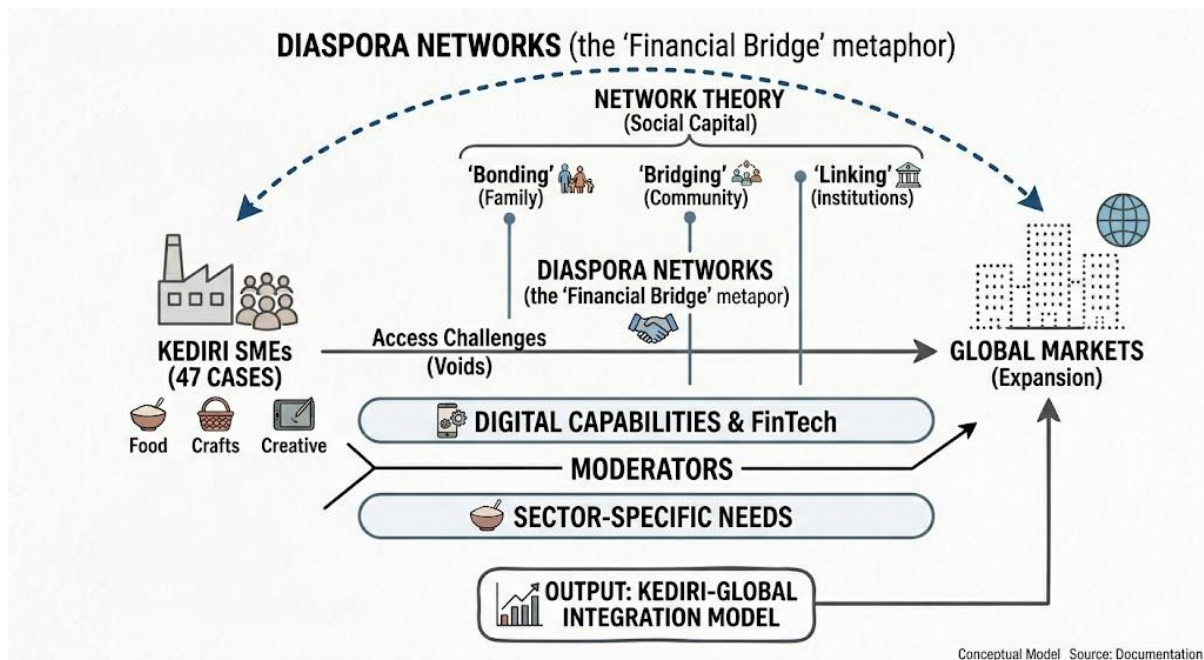
In the era of digital transformation, the effectiveness of diaspora networks as financial catalysts is being redefined through the integration of information technology (ICT) capabilities and the adoption of FinTech. As emphasized by Campanella et al. (2025), the convergence of digital technology and social networks enables more transparent and efficient transnational capital flows through electronic payment platforms or crowdfunding. This digitalization is crucial in reducing transaction costs and mitigating regulatory risks, thereby strengthening the sustainability performance of MSMEs on the international stage.

Sectoral Dynamics and Systemic Barriers

The effectiveness of diaspora "financial bridges" depends heavily on the characteristics of the industry in which they operate. MSMEs in less technology-intensive sectors, such as culinary and processed food products, tend to rely more on the strength of personal relationships (relational ties) to penetrate foreign markets (Jin et al., 2018). However, there are systemic challenges in the form of the risk of exclusivity in informal networks, which can create dependency if not supported by strengthened internal financial governance. Therefore, integrating diaspora support with

increased digital literacy is a prerequisite for resilient internationalization (Totskaya, 2015; Anwar et al., 2023).

Figure 1. Kerangka Berpikir



As a culmination of this line of thought, the interaction between diaspora support and technological moderation will produce a Kediri-Global Integration Model. This model is expected to serve as a strategic reference for how the power of transnational social networks can be optimized to ensure that local MSMEs not only survive but are sustainably integrated into global value chains.

METHOD

This research employed a qualitative approach with a multi-case study design. This design was chosen because it allowed researchers to explore the "Diaspora Financial Bridge" phenomenon in depth across different industry contexts (Yin, 2018). By analyzing 47 MSMEs, this study not only sought unique characteristics in each case but also identified patterns of replication (literal replication) and contrast (theoretical replication) between the traditional culinary sector and the creative industry.

The research location focused on Kediri Regency and City, East Java, known as a potential

MSME hub in East Java. The study subjects consisted of 47 MSMEs selected using purposive sampling techniques with the following criteria:

1. Have active dependence on or interaction with diaspora networks abroad.
2. Have made efforts or are oriented towards internationalization (exports).
3. Represent priority industry clusters: Culinary (Pecel Sambal, Snacks, Homemade Chocolate) and Creative Industries.

To ensure the validity and reliability of the data, this study applies data triangulation through three main instruments: Semi-Structured Interviews: Conducted with MSME owners to explore the dynamics of social capital (Bonding, Bridging, Linking) and the institutional barriers faced. Digital and Field Observations: Observing digital marketing activities, the use of FinTech platforms in international transactions, and the product adaptation process. Document Study: Analysis of export transaction records, business correspondence with diaspora networks, and business legal documents that support internationalization.

The data analysis procedure in this study was conducted through a systematic qualitative approach centered on the Cross-Case Synthesis technique. The first stage began with Within-Case Analysis, where each of the 47 MSMEs was analyzed as a unique, independent case. At this stage, researchers identified how each MSME built relationships with diaspora networks, the types of financial support they received, and how their digital capabilities influenced the effectiveness of those relationships. The result of this stage was an in-depth profile of each case that reflected specific realities on the ground.

After completing the individual analyses, the researchers proceeded to the Cross-Case Synthesis stage to compare findings across cases to identify recurring patterns and contrasting exceptions. Data from 47 MSMEs were categorized based on sector characteristics (culinary vs. creative industries) and level of internationalization experience. Through this technique, the researchers were able to perform Pattern Matching, which involves matching the empirical findings in Kediri with theoretical propositions from Network Theory—particularly regarding the role of bonding, bridging, and linking social capital.

The entire analysis process was supported by the use of thematic coding. Researchers grouped data into key themes such as "financial bridge mechanisms," "FinTech integration," and "local institutional barriers." This approach ensured that despite the large number of research subjects (47 cases), conclusions were drawn in-depth, accurate, and able to produce solid analytical generalizations regarding the integration model of local MSMEs into the global market. Data validity was ensured through Member Checking, where draft findings were reconfirmed with several key informants to avoid biased interpretation by researchers. In addition, the

principle of anonymity was applied to maintain the confidentiality of sensitive business data belonging to the 47 MSMEs involved in this study.

RESULT

An analysis of 47 MSMEs in Kediri showed that the culinary sector (such as pecel sauce and local snacks) dominated the research subjects at 65%, followed by the creative industry at 35%. Field findings revealed that the involved diaspora networks were concentrated in two main regions: the Netherlands and Australia.

In the Netherlands, the diaspora consists of multigenerational (Indo-Dutch) family networks and students with historical and emotional ties to authentic Kediri products. In Australia, the diaspora is predominantly comprised of professionals and migrant communities with high purchasing power and an interest in sustainable products from Kediri's creative industries. Research confirms that the financial bridging mechanism operates through three layers of social capital: Optimizing Bonding Social Capital (Dutch Context): For culinary MSMEs, financial support from the Dutch diaspora often takes the form of family grants to meet European Union food standards. Trust serves as a substitute for formal collateral, enabling MSMEs in Kediri to improve packaging quality (such as retort technology) to allow products to pass stringent Dutch import regulations.

Expanding Bridging Social Capital (Australian Context): Creative industry MSMEs leverage extensively the networks of diaspora communities in Australia. The diaspora acts as business intermediaries, connecting Kediri products with modern retail markets in Sydney or Melbourne, providing working capital through upfront payments.

Potential for Linking Social Capital: Diaspora networks in both countries have begun connecting MSMEs with international trade organizations and annual trade shows, facilitating financial inclusion beyond conventional loans. The digital capabilities of MSME owners act as an accelerator in strengthening this financial bridge. The use of international payment platforms facilitates the flow of capital from diasporas in the Netherlands and Australia to Kediri in real time. In the 47 cases studied, MSMEs that are able to operate digital communication tools professionally have a higher export success rate because they are able to mitigate information asymmetries related to quarantine regulations in Australia and food safety standards in the European Union.

There is a clear pattern of differences based on the location of the diaspora:

The Kediri-Netherlands Corridor: Driven more by emotional nostalgia (nostalgic market), where the diaspora acts as a conduit for traditional culinary products.

The Kediri-Australia Corridor: Driven more by commercial and lifestyle opportunities, where the diaspora acts as a curator for unique and artistically valuable creative industry products.

Respondent Characteristics and Diaspora Networks

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Financial Bridge Mechanisms: Bonding, Bridging, and Linking

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FinTech Integration and Digital Capabilities

The digital capabilities of MSME owners act as an accelerator in strengthening this financial bridge. The use of international payment platforms facilitates the flow of capital from diasporas in the Netherlands and Australia to Kediri in real time. In the 47 cases studied, MSMEs that can operate digital communication tools professionally have a higher export success rate because they are able to mitigate information asymmetries related to quarantine regulations in Australia and food safety standards in the European Union.

Cross-Case Analysis

There is a clear pattern of differences based on the location of the diaspora:

The Kediri-Netherlands Corridor: Driven more by emotional nostalgia (nostalgic market), where the diaspora acts as a mouthpiece for traditional culinary products. The Kediri-Australia Corridor: Driven more by commercial and lifestyle opportunities, where the diaspora acts as a curator for unique and artistic creative industry products. Based on an analysis of 47 MSMEs in Kediri, leveraging diaspora networks in the Netherlands and Australia has three strategic financial implications:

1. Reconstruction of Capital Structure and Reduction of Cost of Capital

In traditional finance literature, MSMEs are often trapped in the pecking order theory, which limits them to physical collateral. This research finding suggests that the diaspora serves as a provider of "patient capital"—capital that does not demand aggressive short-term returns. Consequently, MSMEs in Kediri are able to expand without the burden of high bank interest rates (in the formal sector) or the clutches of loan sharks (in the informal sector). This significantly lowers the weighted average cost of capital (WACC) for MSMEs, thereby increasing their firm value in the long term.

2. Transaction Cost Efficiency and FinTech-Based Financial Inclusion

Diaspora networks in the Netherlands and Australia act as catalysts for the adoption of transnational financial technology. The use of cross-border digital payment platforms mitigates the typically high transaction costs of international banking correspondence systems. Consequently, this cost efficiency increases the net profit margin per export unit. Furthermore, these digital transaction records create a digital footprint that can be used in the future for alternative credit scoring, enabling previously unbanked MSMEs to enter the formal financial ecosystem.

3. Information Asymmetry and Exchange Rate Risk Mitigation Mechanisms

The diaspora serves as a social hedging instrument. With the presence of a diaspora in the destination country (the Netherlands/Australia), information asymmetry regarding the creditworthiness of foreign trading partners can be minimized. Consequently, the risk of default from international buyers is reduced due to informal supervision from the diaspora network. Furthermore, price agreements, often in stable currencies (the Euro or Australian Dollar), through diaspora intermediaries provide a natural hedge against Rupiah volatility, a major market risk for MSME exporters.

4. Diversification of Funding Sources and Financial Resilience

Through the Bridging and Linking dimensions, MSMEs are no longer dependent on a single domestic funding source. This implies a diversification of funding risks. When the domestic economy (Indonesia) experiences a contraction, economic stability in the Netherlands or Australia, through diaspora networks, maintains the flow of liquidity to MSMEs in Kediri, thus creating transnational financial resilience.

CONCLUSION

This study concludes that diaspora networks in the Netherlands and Australia act as crucial "financial bridges" in overcoming the institutional voids phenomenon for 47 MSMEs in Kediri. Through the lens of Network Theory, it was found that social capital in the dimensions of bonding, bridging, and linking is able to transform the capital structure of MSMEs from dependence on rigid domestic financing to more flexible access to transnational capital. The diaspora functions as a provider of patient capital that lowers the cost of capital while acting as an instrument to mitigate risks from information asymmetry and exchange rate volatility in international trade. Financially, diaspora involvement creates a natural hedging mechanism and transaction cost efficiency through the adoption of FinTech. For MSME managers, these findings emphasize that financial resilience is determined not only by physical assets, but also by digital capabilities and the strength of transnational relationships. MSMEs in Kediri must prioritize product standardization in accordance with strict regulations in the Netherlands (European Union) and Australia to maintain the sustainability of cash flow from these networks.

Regional governments and financial authorities are advised to facilitate innovative financing schemes such as Diaspora-backed Peer-to-Peer Lending or Crowdfunding. Strengthening the Kediri diaspora database in the Netherlands and Australia could be a strategic asset for building an alternative credit scoring ecosystem for MSMEs that have previously been categorized as unbankable. This study is limited by its qualitative scope and geographic focus on two destination countries. Future research is expected to apply quantitative or mixed-methods methods to measure the correlation between the volume of diaspora investment remittances and the long-term increase in MSME profitability and firm value, as well as expanding the scope to other export destination countries in Asia and the Americas.

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