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Cross-Currency Transaction Management and Pricing Strategies for MSMEs at the Indonesia-Timor Leste Border

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A B S T R A C T

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economy, including in border areas. However, MSMEs in the Indonesia-Timor Leste border face significant challenges in managing cross-currency transactions and determining competitive pricing. This community engagement program aims to provide training on financial record-keeping, currency exchange management, and pricing strategies for MSMEs in Motamasin. The program consists of theoretical training and simulations, where participants learn to record transactions, analyze exchange rates, and set competitive prices considering currency fluctuations. The results indicate that MSMEs benefit from structured financial recording and increased awareness of exchange rate risks. Strengthening financial literacy and compliance with currency regulations enhances MSMEs' business stability and contributes to Indonesia's economic sovereignty.

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INTRODUCTION

MSMEs play a crucial role in the national economy, including in border areas. According to data from the Ministry of Cooperatives and SMEs (2023), MSMEs contribute more than 60% to Indonesia's Gross Domestic Product (GDP) and absorb over 97% of the workforce. However, MSMEs in border areas face more complex challenges compared to those in other regions, mainly due to geographical conditions, limited infrastructure, and cross-border trade regulations. In the Motamasin border area (Indonesia–Timor-Leste), MSMEs have significant potential in trading essential goods, processed foods, and handicrafts. However, they still encounter various obstacles in financial record-keeping and business management.

One of the major challenges faced by SMEs in border areas is the management of financial transactions involving foreign currencies. A study by Sari and Yulianti (2022) indicates that the low level of accounting knowledge among SME entrepreneurs in these areas makes it difficult for them to record transactions in foreign currencies, particularly in terms of exchange rate notation and currency conversion. Many business owners fail to account for exchange rate fluctuations, often incurring losses without realizing it. Furthermore, inadequate financial record-keeping hinders SMEs' access to bank financing, as they lack financial statements that meet the standards required for obtaining business credit.

In addition to financial record-keeping issues, SMEs in Motamasin also face difficulties in determining product selling prices. A study by Nugroho (2021) found that border-area SMEs often set selling prices subjectively, without considering production costs, exchange rate fluctuations, and import duties in the destination country. The instability of the Rupiah against the US Dollar (USD), which is used in Timor-Leste, makes it challenging for SMEs to maintain price competitiveness. If the prices are too high, their products struggle to compete in the Timor-Leste market, but if they are too low, they risk incurring losses. Moreover, differences in cross-border taxation regulations further complicate the establishment of competitive pricing.

Research by Manehat et al. (2023) adds that SMEs in border areas face limitations in accessing market information and cross-border trade policies. This lack of access makes it difficult for SMEs to understand export-import regulations and administrative barriers, which often slow down the distribution process. These challenges are further exacerbated by inadequate infrastructure and limited access to capital, making it difficult for border SMEs to compete with imported products from neighboring countries. Additionally, restricted distribution networks hinder SMEs from reaching a broader market in Timor-Leste.

In addition to economic challenges, the lack of financial literacy and digitalization also poses significant barriers for SMEs in Motamasin. A study by Wijaya (2022) indicates that most border-area SMEs still rely on manual financial record-keeping or lack organized bookkeeping altogether. However, proper financial documentation can help SMEs assess business performance, access formal financing, and enhance their competitiveness. In the digital era, many urban SMEs have adopted technology for financial record-keeping and digital marketing, yet border-area SMEs remain lagging in these aspects. As a result, they struggle to reach broader markets and continue to rely on cash transactions and local markets.

Based on these issues, community engagement initiatives are needed to provide education and training for SMEs in Motamasin on recording transactions in foreign currencies, exchange rate analysis for pricing decisions, and understanding cross-border taxation regulations. Additionally, equipping SMEs with knowledge of financial record-keeping can enhance their capacity to manage finances effectively. This assistance is expected to help SMEs prepare more accurate financial statements, understand border market dynamics, and set competitive selling prices without compromising their business sustainability.

IMPLEMENTATION AND METHODS

This community engagement program focuses on managing cross-currency financial transactions and pricing techniques for SMEs operating along the Indonesia–Timor-Leste border. The program involves 50 SME entrepreneurs from both Indonesia and Timor-Leste who conduct business at the Motamasin Border Crossing Post (PLBN) in Malaka Regency, East Nusa Tenggara Province, as well as in border areas of Timor-Leste. Participants come from various business sectors, including small food stalls, grocery stores, agriculture, small-scale livestock farming, woodworking workshops, vehicle repair shops, and beauty salons. This program is a collaborative effort between Universitas Katolik Widya Mandira (UNWIRA) Kupang and Universidade Católica de Timor (UCT) Dili, with support from PLBN Motamasin as the activity facilitator.

This community engagement method consists of two main stages: training and simulation. In the training phase, participants are provided with an understanding of currency usage in transactions, both in Indonesia and Timor-Leste, as well as guidance on when to use Rupiah (IDR) or US Dollars (USD) to minimize exchange rate risks. Additionally, participants are trained to understand exchange rate dynamics when conducting transactions in Indonesia and how to optimize profits in cross-border transactions. In the simulation phase, participants are presented with case studies on buying and selling transactions using different currencies, taking into account daily exchange rate fluctuations, conversion costs, and consumer purchasing power in each country. They are also guided through technical calculations for setting competitive selling prices, considering exchange rate fluctuations and appropriate profit margins.

This community engagement approach is practical and experience-based, allowing SME entrepreneurs to directly apply the strategies learned to their businesses. Through the collaboration between UNWIRA Kupang and UCT Dili, participants gain insights from both countries, helping them understand the differences in monetary and economic policies between Indonesia and Timor-Leste. This program is expected to enhance SMEs' capacity to manage cross-currency transactions more effectively and to set appropriate selling prices based on market conditions and prevailing exchange rates.

RESULTS AND DISCUSSION

Law Number 7 of 2011 on Currency regulates the mandatory use of the Rupiah in all transactions conducted within Indonesia. However, in practice, the use of foreign currencies remains prevalent in certain areas, particularly in border regions and tourist destinations. One example is the Lounge Art Foundation on Jalan Suryodiningrat, Yogyakarta, which opts to use the US dollar as a transaction medium due to its predominantly foreign customer base, making it a more profitable option (Ketaren, 2016).

Additionally, the use of foreign currencies is also observed in border areas, such as in Nunukan Regency, North Kalimantan, particularly in Krayan District, which directly borders Sarawak, Malaysia. Nunukan Regency is located in the northernmost part of North Kalimantan Province and shares a direct border with the states of Sabah and Sarawak (East Malaysia). Since its establishment as an autonomous region in 1999, Nunukan Regency has covered an area of 14,247.50 km^2. In their daily activities, local communities use not only the Rupiah but also the Malaysian Ringgit for transactions, especially to meet basic needs such as clothing and food (Nugraha, 2020).

A similar phenomenon also occurs in the Motamasin border area (Indonesia–Timor-Leste), where transactions are frequently conducted using both Rupiah and US Dollars. This practice does not fully comply with legal provisions, likely due to the community's limited awareness of the applicable regulations. Therefore, as part of the community engagement activities, education is provided on the importance of using Indonesia’s currency in all transactions to enhance legal awareness and strengthen national economic sovereignty. In delivering the material, the speaker explained that the use of foreign currencies, particularly the US Dollar (USD), in transactions within Indonesia has various impacts, both positive and negative. These impacts can be analyzed from different perspectives, including economic, legal, and national financial stability, as outlined in the following table 1:

Table 1. The Impact of Using Foreign Currencies in Transactions in Indonesia

Aspect	Positive Impact	Negative Impact
Trade & Investment	- Facilitates international trade transactions. - Attracts more foreign investors.	- Dependence on the US Dollar may weaken government control over monetary policy.
Tourism	- Enhances the competitiveness of tourist destinations frequently visited by foreign tourists. - Simplifies transactions for foreign visitors.	- Reduces demand for Rupiah in certain tourist areas. - Risks decreasing the use of Rupiah as the primary means of payment.
Exchange Rate & Economic Stability	- Eases access to imported goods for businesses.	- Depreciation of the Rupiah due to lower demand for the local currency. - Increases economic vulnerability to changes in US monetary policy.
Legal Compliance	- Facilitates certain business transactions that are based on foreign currencies.	- Violates Law No. 7 of 2011 on Currency, which mandates the use of Rupiah in transactions within Indonesia.
Economic Inequality	- Provides flexibility for large-scale businesses engaged in export-import activities.	- Increases inequality between groups with access to the US Dollar and those without. - Creates difficulties for local communities that rely solely on Rupiah.

The table illustrates that while the use of the US Dollar offers certain benefits in specific aspects, its negative impacts on economic stability, exchange rates, and national economic sovereignty are more significant. Therefore, policies that promote the use of Rupiah in domestic transactions need to be strengthened. As a result, micro, small, and medium enterprises (MSMEs) should be encouraged to conduct transactions using Rupiah within Indonesia. By doing so, MSMEs contribute to maintaining national economic sovereignty and supporting government policies aimed at strengthening the domestic currency. Using Rupiah helps MSMEs avoid uncertainties caused by exchange rate fluctuations and ensures price stability for their products. The adoption of Rupiah also reflects confidence in the national currency, which is a crucial factor in fostering long-term economic stability. Moreover, most government and banking financial assistance programs for MSMEs are denominated in Rupiah. By using the local currency, MSMEs can more easily access business credit, banking services, and government incentives, further supporting their financial growth and sustainability.

Fgure 1. Providing Material on the Importance of using Rupiah in Transactions

In addition to providing information on the importance of using Rupiah, the next stage involves a Transaction Simulation Using Different Currencies (Rupiah and US Dollar). The steps in the simulation are outlined as follows:

Determining the Applicable Exchange Rate

The exchange rate is the price of one currency in terms of another. To obtain an accurate exchange rate, businesses can:

1. Check the exchange rate from Bank Indonesia (BI) or other local banks.
2. Use banking services or financial platforms such as XE.com, OANDA, or Google Finance.
3. Observe the difference between the bid (buy) and ask (sell) rates provided by financial institutions.

Example:

If the exchange rate for USD to IDR is 1 USD = Rp15,500, this rate serves as the basis for currency conversion.

Calculating Currency Conversion

Once the exchange rate is determined, the amount to be converted must be calculated.

a. Converting from Foreign Currency to Rupiah

The applicable formula is:

Amount in Rupiah = Amount of Foreign Currency × Exchange Rate …… (1)

An example of applying this formula is as follows: A customer from Timor Leste pays $100 for a product sold by an MSME in Indonesia. If the exchange rate is 1 USD = Rp15,500, then:

$100 x IDR 15.500 = IDR 1.550.000

This means that the MSME will receive Rp1,550,000 in Rupiah.

b. **If Converting from Rupiah to a Foreign Currency**

The formula that can be used is:

Amount in Foreign Currency = Amount in Rupiah ÷ Exchange Rate ….. (2)

An example of applying the formula above is as follows: If an importer in Indonesia needs to pay a supplier in Timor Leste an amount of Rp3,100,000, and the exchange rate is 1 USD = Rp15,500, then:

IDR 3.100.000 : IDR 15.500 = 200 USD

This means the importer must prepare $200 for the payment.

Considering Conversion Costs and Bank Spread

Banks and foreign exchange service providers often impose conversion fees and have differences between the buying and selling exchange rates (spread).

a. Selling rate:
   The exchange rate used when purchasing foreign currency from a bank.
b. Buying rate:
   The exchange rate used when selling foreign currency to a bank.

For example, if the USD buying rate at a bank is Rp15,500 but the selling rate is Rp15,700, then:

a. If purchasing $100, the total cost would be: $100 × Rp15,700 = Rp1,570,000.
b. If exchanging $100 into Rupiah, the amount received would be: $100 × Rp15,500 = Rp1,550,000.
c. The difference of Rp20,000 represents an indirect cost due to the exchange rate spread.

MSMEs are advised to use banks or services with lower spreads and choose transaction times when exchange rates are stable to avoid losses due to fluctuations.

Incorporating Exchange Rate Conversion into Pricing Strategy

Businesses that transact in multiple currencies must consider exchange rate fluctuations when setting product prices. Several strategies can be implemented, including:

a. Setting prices in the local currency (Rupiah) and updating them periodically based on the exchange rate.
b. Adjusting profit margins to account for exchange rate fluctuation risks.
c. Using hedging contracts to minimize exchange rate risks for future transactions.

The following is an example. An MSME at the Motamasin border sells a souvenir for Rp500,000. If a customer from Timor-Leste wishes to pay in USD and the exchange rate at that time is 1 USD = Rp15,500, then the price in USD would be:

IDR 500.000 : IDR 15.500 = 32,26 USD

MSMEs may round the price to $33 to account for conversion costs.

In accordance with Law Number 7 of 2011 on Currency, MSMEs in Indonesia, particularly in border areas, play a crucial role in strengthening the Rupiah as the official means of payment. By conducting transactions in Rupiah, MSMEs contribute to maintaining exchange rate stability and reducing dependence on foreign currencies such as the US Dollar (USD). The greater the volume of transactions conducted in Rupiah, the higher the demand for the national currency, ultimately helping to strengthen its position in financial markets. This policy also supports national economic sovereignty, ensuring that Indonesia is not solely reliant on foreign currencies for its economic activities but is also capable of developing a more independent financial system.

Furthermore, maintaining consistency in using the Rupiah can enhance domestic market confidence. Local consumers will feel more comfortable conducting transactions without the need for currency conversion, thereby ensuring stable purchasing power. Additionally, MSMEs that use the Rupiah for all their operations will benefit from greater transparency in financial reporting, which can enhance their credibility in the eyes of investors and financial institutions. Thus, compliance with this regulation is not merely a legal profitable, and sustainable business in the long run.

Figure 2. Participants Listening to the Material

Accounting Records for Transactions in Dual Currencies (Rupiah and U.S. Dollar)

In businesses that conduct transactions using more than one currency, accounting records must consider exchange rates, currency fluctuations, and changes in the value of assets and liabilities denominated in foreign currencies. The following are systematic steps for accounting records. In the context of MSMEs operating in border areas such as Motamasin, micro and small enterprises (MSEs) typically use a single-entry bookkeeping system, which records only cash inflows and outflows without a double-entry accounting system. Providing guidance on simple financial record-keeping for Micro, Small, and Medium Enterprises (MSMEs) aims to support them in managing and recording their finances more efficiently and systematically (Manehat & Sanda, 2022; Hasnarika et al., 2024).

Case Study: MSEs in the Motamasin Border Area (Indonesia–Timor Leste)

A small trader in Motamasin sells food supplies and accepts payments in two currencies: Rupiah and U.S. Dollar. The trader records daily transactions in a simple cash book. An example of a single-entry daily record can be seen in the following table 2:

Table 2. An Example of a Single-Entry Daily Record

Date	Description	Income (Rp)	Income (USD)	Expenses (Rp)	Expenses (USD)	Ending Balance (Rp & USD)
01/03/2025	Beginning Balance	5,000,000	200	-	-	Rp5,000,000 & $200
02/03/2025	Sales to Indonesian Citizens	1,500,000	-	-	-	Rp6,500,000 & $200
02/03/2025	Sales to Foreign Nationals	-	50	-	-	Rp6,500,000 & $250
03/03/2025	Purchase of Raw Materials (Rp)	-	-	3,000,000	-	Rp3,500,000 & $250
03/03/2025	Purchase of Imported Goods (USD)	-	-	-	100	Rp3,500,000 & $150
04/03/2025	USD to Rupiah Conversion (Exchange Rate: Rp15,500)	1,550,000	-	-	100	Rp5,050,000 & $50

The table above illustrates that each transaction is recorded directly in a simplified format without capturing its impact on other accounts such as inventory or liabilities. Transactions in USD are recorded separately, but when converted to Rupiah, the prevailing exchange rate (Rp15,500/USD) is used. Additionally, there is no explicit recording of assets, liabilities, or equity—only cash inflows and outflows are documented. This single-entry bookkeeping approach is used due to limited accounting knowledge. Moving forward, it is expected that MSMEs can be guided towards adopting double-entry bookkeeping for more structured and accurate financial recording.

Figure 3. Presentation of material on Accounting Records for Transactions in Dual Currencies

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the community engagement activities, it was found that MSMEs in the border region between Indonesia and Timor-Leste, particularly in Motamasin, continue to face various challenges in managing cross-currency transactions and determining selling prices. The primary difficulty lies in the limited accounting knowledge regarding the recording of foreign currency transactions, which makes it challenging for MSMEs to manage exchange rate fluctuations. Additionally, many business owners set selling prices subjectively without considering production costs, daily exchange rates, and cross-border tax regulations. The lack of access to market information and cross-border trade policies further exacerbates the situation, making it difficult for MSMEs to compete with imported products from neighboring countries.

Through training programs and simulations, MSMEs were educated on recording transactions in foreign currencies, strategies for managing exchange rate fluctuation risks, and methods for setting more competitive selling prices. Training participants began to understand the importance of using Rupiah in domestic transactions to maintain economic stability and reduce dependency on the US Dollar. Additionally, they were introduced to how financial technology can assist in monitoring exchange rates and implementing price adjustment strategies to enhance business competitiveness. With the practical approach provided, MSMEs are expected to adopt more effective strategies in their business operations.

Going forward, further efforts are needed to enhance financial literacy and accounting records for MSMEs in border areas. The government, academia, and financial institutions must collaborate to provide continuous training on double-entry bookkeeping, enabling MSMEs to manage their finances more transparently. Additionally, strengthening infrastructure support and access to Rupiah-based financing is crucial to help MSMEs grow independently without relying on foreign currencies. With ongoing education and supportive policies, border-area MSMEs will be better prepared to navigate market dynamics and compete effectively with products from other countries.

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