

Enhancing the Local Community Economy through Financial Transactions: The Contribution of the Rupiah and the Kina

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This study aims to examine the contribution of the Indonesian Rupiah and the Papua New Guinean Kina in financial transactions and their role in enhancing the local economy in border communities. The research is grounded in the economic phenomenon observed in the Skouw Sae border area, where daily financial transactions are not solely dependent on the national currency but also involve a neighboring country's currency as an adaptive response to cross-border economic dynamics. A descriptive qualitative approach with a field research design was employed. Data were collected through in-depth interviews, direct observation, and documentation involving local business actors, cross-border traders, and community members engaged in dual-currency transactions. The data were analyzed thematically to identify patterns, mechanisms, and economic implications of dual-currency usage. The findings reveal that the dual-currency financial transaction system contributes positively to transaction intensity, local money circulation, market accessibility, and community purchasing power. Rather than generating economic instability, the use of both currencies functions as an adaptive mechanism that strengthens local economic resilience. This study provides empirical and theoretical contributions to border economy literature and offers policy-relevant insights for designing context-sensitive and inclusive local economic development strategies.

Keywords: financial transactions, dual-currency system, local economy, border area, Rupiah and Kina

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1. Introduction

Border regions exhibit unique economic dynamics shaped by cross-border interactions, including the use of more than one currency in daily financial transactions. In the Skouw Sae area, local economic activities are not solely dependent on the Rupiah as Indonesia's national currency but also on the Kina, the currency of Papua New Guinea, which is used in informal and semi-formal cross-border transactions. This phenomenon creates a dual-currency financial transaction system that has the potential to strengthen local economic circulation, expand market access, and increase the purchasing power of border communities.[1] However, the use of two currencies may also generate exchange rate instability, price information asymmetry, and challenges in managing local monetary conditions. Economic literature generally emphasizes the role of national currencies in maintaining economic stability, yet remains limited in examining the simultaneous contribution of dual currencies to the strengthening of local community economies in border regions.[2]

Based on a review of reputable international literature, several research gaps can be identified. Most Scopus-indexed studies focus on single-currency systems, while research on dual-currency usage at the microeconomic level of border communities remains limited. Cross-border studies tend to emphasize formal international trade rather than the daily financial transactions of local communities[3] Previous research has largely concentrated on macroeconomic stability, leaving the direct impact of dual-currency usage on local economic strengthening empirically underexplored. [4]Moreover, no studies have specifically examined the simultaneous contribution of the Rupiah and the Kina within a unified local economic analysis framework.

Enhancing the Local Community Economy through Financial Transactions: The Contribution of the Rupiah and the Kina. Nani Hanifah

[5] To date, no Scopus-indexed research has empirically and contextually positioned Skouw Sae as the primary research locus, making this study the only one to explicitly address this scholarly gap.[6]

This study aims to analyze the contribution of the Rupiah and the Kina in the financial transactions of communities in the Skouw Sae border region and to assess their role in enhancing the local economy. Specifically, it examines how the mechanisms of dual-currency usage influence transaction intensity, purchasing power, and economic activities within border communities. Furthermore, this study is expected to contribute theoretically to the development of border economy and dual-currency system studies, while also providing policy-relevant insights for local governments in formulating strategies for strengthening local economies based on the distinctive characteristics of border regions.

2. Literature Review

Studies in monetary and financial economics position the structure of the financial system and the effectiveness of transaction mechanisms as fundamental determinants shaping economic stability, activity intensity, and resilience across different levels of analysis. Financial system stability and efficient transaction mechanisms are widely recognized as key elements in supporting economic growth and sustainability. Anand and Nair demonstrate that financial stress and asymmetric monetary policy responses have direct implications for macroeconomic stability. [7] At the micro level, Sun find that financial flexibility reduces financing constraints and strengthens the sustainability of small and medium-sized enterprises.[8] Meanwhile, Arora, Choo, and Hu emphasize the importance of spatial risk-sharing mechanisms in maintaining consumption stability and interregional economic circulation. Collectively, these findings indicate that the structure and flexibility of financial systems significantly contribute to economic dynamics and strengthening processes.[9]

Studies focus on formal financial systems and single-currency frameworks within macroeconomic contexts. The literature remains limited in explaining how currency plurality at the community level, particularly in border regions, influences daily transactions and local money circulation. If financial flexibility enhances economic resilience, then the practice of dual-currency usage in localized settings may carry significant structural implications. This gap underscores the need for empirical analysis of how dual-currency systems contribute to strengthening local economies in border communities.

This study formulates the research problem as follows: how does the simultaneous use of the Rupiah and the Kina in financial transactions among communities in the Skouw Sae border area shape and influence local economic strengthening? This question is posed to emphasize the importance of understanding dual-currency practices not merely as a transactional phenomenon, but as an economic mechanism that potentially affects money circulation, the intensity of trade activities, and the economic resilience of border communities within their distinctive social and institutional context.

3. Method

This study employs a descriptive qualitative approach with a field research design to gain an in-depth understanding of the phenomenon of Rupiah and Kina usage in the financial transactions of border communities. The qualitative approach is adopted because the study focuses on the meanings, practices, and economic experiences of the community within a specific social context, rather than on purely statistical measurement. The research was conducted in Skouw Sae, a border area between Indonesia and Papua New Guinea that exhibits distinctive cross-border economic characteristics. The research was carried out over a specific period, allowing the researcher to engage intensively with the local community and directly observe financial transaction patterns. This approach is consistent with Creswell's (2014) perspective,

which emphasizes that qualitative research aims to develop contextual understanding from participants' viewpoints.[10]

Data collection was conducted through in-depth interviews, direct observation, and documentation. Semi-structured interviews were carried out with key informants, including local business actors, cross-border traders, and community members who actively use the Rupiah and the Kina in their daily transactions. Observations focused on economic transaction activities in markets, small shops, and other points of economic interaction within the border community. Documentation included field notes, local archives, and relevant supporting documents related to community economic activities. Data triangulation was applied to ensure the validity and credibility of the findings.[7]

Data analysis was conducted using a thematic analysis approach, beginning with data reduction, followed by data display, and concluding with the drawing of conclusions. The collected data were coded to identify patterns, themes, and relationships among concepts related to the contribution of currency usage to local economic strengthening. The analysis process was carried out simultaneously with data collection, enabling the researcher to refine the research focus based on field findings. This analytical approach follows the interactive model proposed by Miles, Huberman, and Saldaña (2014), which emphasizes continuous and reflective analysis.[8]

4. Results and Discussion

Enhancing the Local Economy through Financial Transactions: The Contribution of the Rupiah and the Kina

Economic activities in border areas are shaped by unique financial interactions that differ from those in non-border regions. One of the most prominent characteristics is the simultaneous use of more than one currency in daily transactions, which reflects both economic necessity and cross-border social relations. In this context, financial transactions play a strategic role in sustaining and enhancing the local economy. The circulation of the Indonesian Rupiah alongside the Papua New Guinean Kina creates a dual-currency transaction system that influences market access, purchasing power, and income generation for local communities. This phenomenon is particularly evident in border regions where formal and informal economic activities intersect.[11] The ability of local actors to adapt to multi-currency transactions demonstrates an embedded economic resilience that supports local trade and small-scale enterprises. Understanding how these financial transactions operate and contribute to economic outcomes is essential for capturing the real dynamics of local economic enhancement. Therefore, examining the contribution of the Rupiah and the Kina provides an important perspective on how financial mechanisms shape economic development at the community level in border areas.



Figure 1. Enhancing the Local Economy through Financial Transactions: The Contribution of the Rupiah and the Kina

The enhancement of local economies in border regions cannot be adequately understood without examining the financial transaction structures that mediate everyday economic interactions among local communities. In border areas, economic life is shaped not only by national monetary systems but also by

cross-border currency practices that emerge organically in response to spatial proximity, social networks, and market needs. The use of the Indonesian Rupiah alongside the Papua New Guinean Kina represents a complex currency configuration in which monetary plurality functions as both an economic resource and an adaptive strategy for local actors. Currency factors form the foundational layer of this system, as the availability, acceptability, and perceived reliability of each currency influence transactional choices and economic behavior.[12] The Rupiah operates as the dominant legal tender within Indonesia's monetary jurisdiction, providing price stability, institutional legitimacy, and formal market integration, while the Kina functions as a complementary medium of exchange that facilitates cross-border trade and accommodates the economic realities of border communities. This coexistence of currencies reflects a form of monetary pragmatism, where economic actors prioritize transaction efficiency and market accessibility over formal currency boundaries, aligning with broader theories of monetary pluralism and informal finance in peripheral regions. The interaction between these currencies establishes the preconditions for financial transactions that are flexible, situational, and deeply embedded in local socio-economic contexts, allowing communities to navigate the constraints imposed by geographical remoteness and institutional fragmentation.[13]

Within this framework, financial transaction processes emerge as the central mechanism through which currency factors translate into tangible economic effects. Transaction intensity is a key dimension, as the presence of dual currencies increases the frequency and volume of exchanges by reducing friction in cross-border payments and minimizing the need for formal currency conversion. When traders and consumers are able to transact using the currency most convenient to their counterparties, economic exchanges become more fluid and responsive to market demand. Currency flexibility further enhances this process by enabling actors to hedge against exchange rate volatility and liquidity shortages, thereby stabilizing transactional relationships over time. Access to cross-border payment mechanisms, even when informal, expands the functional market area beyond national boundaries, allowing local economic actors to engage with a wider range of suppliers, buyers, and intermediaries. This expansion of market reach is particularly significant in border regions, where local economies often suffer from limited scale and isolation from national economic centers. By facilitating transactions across borders, dual-currency systems effectively integrate local markets into transnational economic circuits, increasing competitiveness and reducing dependency on single-market dynamics. Such transaction processes are consistent with empirical findings in borderland economics, which emphasize the role of financial adaptability in sustaining local trade networks and mitigating structural disadvantages.[14]

As financial transaction processes intensify and stabilize, they directly shape the structure and performance of local economic activities. Trade and service sectors are among the most immediate beneficiaries, as increased transaction efficiency lowers entry barriers for small traders and service providers. Micro and small enterprises, which constitute the backbone of local economies in border regions, rely heavily on frequent, low-value transactions that are sensitive to payment frictions and liquidity constraints. The ability to accept multiple currencies enhances their resilience by diversifying revenue streams and expanding customer bases. Local money circulation is also strengthened, as currencies remain within the community for longer periods, supporting multiplier effects that amplify economic activity. Rather than leaking out through formal banking systems or distant markets, money circulates locally, sustaining employment, consumption, and reinvestment. Cross-border economic interactions further enrich this ecosystem by introducing product diversity, price competition, and knowledge exchange, which contribute to innovation and adaptability among local enterprises. These dynamics align with endogenous development theories, which argue that local economic growth is driven by internal capacities, social capital, and locally embedded institutions rather than external investment alone. [9]

The cumulative impact of these economic activities manifests in a range of local economic outcomes that reflect both material and structural improvements. Increased purchasing power is a primary outcome, as higher transaction volumes and diversified income sources enable households to access a broader range of goods and services. Income growth among traders and small business owners contributes to improved living standards and greater economic security, reducing vulnerability to shocks. Economic stability is further enhanced by the buffering effect of dual currencies, which allows communities to adapt to fluctuations in supply, demand, and exchange rates. This stability is particularly valuable in border regions, where formal economic support mechanisms are often limited and exposure to external shocks is high. Border area development emerges as a broader outcome, encompassing improvements in market infrastructure, social cohesion, and institutional recognition. As economic activity intensifies, local governments and other stakeholders are more likely to invest in supporting infrastructure and services, creating a virtuous cycle of development. These outcomes reflect the multidimensional nature of local economic enhancement, which extends beyond income metrics to include resilience, inclusivity, and long-term sustainability. [15]

At the apex of this framework lies the enhanced local economy, representing the integrated result of currency factors, financial transaction processes, economic activities, and outcomes. An enhanced local economy is characterized by increased economic autonomy, reduced marginalization, and greater capacity for self-sustained growth. In border regions, this enhancement is not merely an economic phenomenon but also a socio-spatial transformation that redefines the role of peripheral communities within national and regional economic systems. The contribution of the Rupiah and the Kina to this process illustrates how monetary diversity, when embedded in local practices and supported by social networks, can function as a catalyst for development rather than a source of instability. This challenges conventional economic models that prioritize currency uniformity and formalization, suggesting instead that context-sensitive financial arrangements can yield positive outcomes in specific settings. The framework underscores the importance of recognizing local agency in shaping economic systems and highlights the need for policy approaches that accommodate, rather than suppress, adaptive financial practices in border areas. By situating dual-currency usage within a coherent analytical structure, this model provides a comprehensive understanding of how financial transactions contribute to local economic enhancement and offers a foundation for further empirical investigation and policy innovation in borderland economies. [16]

Discussion of Data Analysis and Theoretical Engagement

The findings of this study demonstrate that the use of the Indonesian Rupiah and the Papua New Guinean Kina in border-community financial transactions constitutes a functional and adaptive local economic system rather than a monetary anomaly. Empirical evidence from the field indicates that dual-currency practices operate as a practical response to institutional limitations, geographical isolation, and cross-border social networks. Financial transactions in this context are embedded within local norms, trust-based relationships, and repeated economic interactions, allowing currency flexibility to reduce transaction frictions and enhance market responsiveness. This finding aligns with the embedded economy perspective, which emphasizes that economic actions are inseparable from social structures and institutional contexts. Furthermore, the observed increase in transaction intensity and market reach supports institutional economic theory, which argues that economic efficiency can emerge from informal arrangements when formal institutions are weak or incomplete. The data also suggest that currency plurality enhances liquidity and transactional continuity, enabling local actors to mitigate risks associated with exchange rate volatility and limited access to formal financial systems. These dynamics reinforce the notion that local economic strengthening in border areas is driven by adaptive practices rooted in contextual rationality rather than

uniform monetary conformity, thereby challenging conventional assumptions of currency homogeneity as a prerequisite for economic stability . [17]

When contrasted with prior research, the findings of this study reveal important departures from dominant narratives in the literature. Most existing studies on currency systems and exchange regimes emphasize macroeconomic risks associated with multi-currency environments, such as inflationary pressures, policy inefficiency, and monetary instability. However, these studies are largely based on national-level data and overlook microeconomic realities at the community level. Similarly, border studies have traditionally focused on formal trade flows, customs regimes, and state-to-state economic relations, offering limited insight into everyday financial transactions among local populations. In contrast, this study provides empirical evidence that dual-currency usage at the micro level contributes positively to economic continuity, particularly through increased liquidity, sustained micro-enterprise activity, and strengthened local money circulation. These findings are consistent with a growing body of literature on informal finance and peripheral economies, which highlights the developmental role of locally embedded financial practices in contexts of institutional scarcity. By foregrounding community-level transaction practices, this research extends and refines existing scholarship, demonstrating that the economic effects of dual-currency systems are highly context-dependent and cannot be adequately assessed through macroeconomic lenses alone.[18]

The results of this study carry important implications for economic policy and regional development strategies in border areas. First, the findings suggest that rigid regulatory approaches aimed at eliminating non-domestic currency usage may inadvertently disrupt local economic systems that rely on transactional flexibility for survival. Rather than viewing dual-currency practices as deviations from monetary order, policymakers should recognize them as adaptive mechanisms that sustain local livelihoods.[19], [20] Second, local governments and development agencies can leverage these insights to design facilitative policies that support border-market infrastructure, improve transaction transparency, and enhance financial access without undermining existing economic practices. Third, the study underscores the relevance of place-based development approaches, which prioritize local economic characteristics and endogenous capacities over standardized national policy frameworks. [21], [22], [23], [24] By acknowledging the economic logic underpinning dual-currency transactions, policymakers can promote inclusive development strategies that reduce regional disparities and strengthen economic resilience in peripheral border regions. These implications highlight the necessity of aligning monetary and development policies with the lived economic realities of border communities.

This study makes several significant contributions to the literature on local economic development, monetary systems, and border studies. First, it advances empirical understanding of dual-currency systems by providing qualitative, field-based evidence from a border-community context, an area that remains underrepresented in Scopus-indexed research. Second, the study shifts analytical focus from macroeconomic outcomes to micro-level transaction processes, emphasizing how everyday financial practices shape local economic trajectories. Third, it introduces an integrative conceptual framework linking currency factors, financial transaction processes, local economic activities, and economic outcomes, offering a holistic lens for analyzing border economies. Fourth, by positioning a border locality as the primary unit of analysis, this research enriches regional development and border studies with an economic perspective grounded in community practices. Finally, the study opens avenues for future research to test its conceptual model quantitatively or comparatively across different border regions. Collectively, these contributions enhance theoretical, methodological, and empirical debates on how localized financial systems can drive economic strengthening in structurally marginalized regions.

5. Conclusion

This research reveals a critical and previously undocumented finding: the simultaneous use of the Indonesian Rupiah and the Papua New Guinean Kina in border-area financial transactions functions not as a source of economic disorder, but as an adaptive mechanism that actively strengthens local economic resilience. This dual-currency practice enhances transaction continuity, market access, and local income circulation, demonstrating that monetary plurality at the micro level can generate positive economic outcomes when embedded in community practices. Such evidence only became apparent through direct field-based qualitative inquiry and challenges dominant assumptions that economic stability requires strict currency uniformity. From a scientific perspective, this finding expands local economic development theory by showing that informal and context-driven financial practices can coexist with, and even complement, formal monetary systems. In practical terms, the results offer valuable insights for economic education, including Islamic economic education, by emphasizing contextual justice, adaptability, and community welfare as core principles in economic praxis. However, this study is limited by its focus on a single border location, a relatively small number of informants, and the use of qualitative methods without comparative regional analysis. The findings are also not examined across different demographic groups or institutional levels. Therefore, further research involving broader locations, more diverse samples, mixed methods, and comparative border contexts is needed to deepen understanding. More comprehensive evidence will enable the formulation of more responsive, inclusive, and context-sensitive economic and educational policies.

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