

## SYSTEMATIC LITERATURE REVIEW: THE ROLE OF MSMES (MICRO, SMALL AND MEDIUM ENTERPRISES) IN IMPROVING COMMUNITY WELFARE

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### ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the economic development of Indonesia. They significantly contribute to employment, local economic growth, and poverty reduction. However, MSMEs face challenges such as limited access to capital, technological gaps, and human resource development. This research examines the role of MSMEs in improving community welfare, focusing on their contributions to income generation, job creation, innovation, and local economic diversification. Using a qualitative approach and literature review methodology, this study synthesizes secondary data from various sources, including academic journals, government regulations, and statistical data. The findings show that MSMEs contribute to community welfare by creating job opportunities, increasing local production, and driving innovation. Key indicators of welfare, such as income, housing, education, and health, are influenced by the growth of MSMEs. The study concludes that strengthening MSMEs can enhance the economic well-being of Indonesian society, highlighting the need for government support to address existing challenges and ensure sustainable development.

**Keyword:** Micro, Small, and Medium Enterprises (MSMEs), community welfare, economic development, sustainable development.

### INTRODUCTION

The development of Micro, Small and Medium Enterprises (MSMEs) has an important role in the economic growth of a country. According to the Department of Cooperatives, Industry and Trade, MSMEs are one of the economic sectors that greatly contribute to the Indonesian economy. Therefore, MSMEs are the backbone of economic development because they have a very strategic role in national economic development, in addition to playing a role in economic growth and absorbing labor, they also play a role in the distribution of development results (Soomro, et al., 2020).

MSMEs in Indonesia find it difficult to develop in market quality because they face several internal problems, namely the low quality of human resources such as lack of skilled human resources, lack of entrepreneurial orientation, low mastery of technology and management, lack of information and low market orientation (Akbar & Nefrida, 2021).

The existence of MSMEs cannot be eliminated or avoided from society in Indonesia today. Because its existence is very useful in terms of distributing people's

income. In addition, it is also able to create creativity that is in line with efforts to maintain and develop elements of local community tradition and culture. On the other hand, MSMEs are able to absorb labor on a large scale considering the large population of Indonesia so that this can reduce the unemployment rate. From here it can be seen that the existence of MSMEs that are labor-intensive, using simple and easy-to-understand technology can be a place for people to work (Said & Azhar, 2021). MSMEs are a business activity that is relatively easy to run by the community, both those with high and low economies, so that people are able to improve their welfare. One of the MSMEs that is often run by the community is livelihood activities which are small and medium businesses that are used to find food such as street vendors (Candra, 2022).

MSMEs have a very large influence that is present in the midst of society, especially in empowering people who do not or do not have jobs. With the presence of these MSMEs, at least someone can meet their personal needs and be far from poverty. In addition, MSMEs also have a role in various sectors that have come back to life because of the presence of MSMEs such as distribution services and transportation, production land rental services, manufacturing industries that make production machines, packaging industries, advertising services, marketing, and product branding design services. The role of MSMEs in welfare is very important because it can increase people's income which will help meet daily needs (Damayanti et al., 2023).

With this, in the current era, MSMEs are quite in demand by the people of Indonesia. The influence of MSMEs on society is very large, especially in empowering people who do not yet have jobs. At least people can meet their personal needs so that they can be fulfilled and far from the poverty line. With the rapid development of MSMEs, of course, it can expand employment opportunities and utilize the potential of natural resources and human resources so as to improve the economy in Indonesia. (Dayanti & Prasetyo, 2023)

In addition, strengthening MSMEs is also a pillar of building the nation's economy. MSMEs or companies need strong enough equipment to run their

businesses through strong capital, potential market opportunities, and professional management staff in managing a business.(Wijaya & Basit, 2024)However, there are still problems in regulation, performance, and access to capital that need to be addressed. Infrastructure development also plays a very important role in spurring economic growth, both at the national and regional levels, and reducing disparities between regions. In order to achieve the vision of Golden Indonesia 2045, there needs to be a transformation of human and cultural development in villages, underdeveloped areas, and transmigration within the framework of equitable regional development. Therefore, there needs to be collaborative efforts and synergy of policies and programs between ministries and institutions, between central and regional governments, and between the private sector and the community to realize advanced and sustainable Indonesian Development (Putra, 2024). So that the programs carried out by the government can provide increased community welfare through various sectors to be able to create national development(Basit, 2022).

In national economic development, Micro, Small and Medium Enterprises (MSMEs) have emerged as a common thread that cannot be separated from prosperity and progress.(Aprilani et al., 2023). The role of society in national development, the main one in economic development is Micro, Small, and Medium Enterprises. The position of Micro, Small, and Medium Enterprises (MSMEs) in the national economy has an important and strategic role. This condition is very possible because the existence of MSMEs is quite dominant in the Indonesian economy, with the reason being the large number of industries and in every economic sector; great potential in absorbing labor, and the contribution of MSMEs in the formation of Gross Domestic Product (GDP) is very dominant

Another reason is that micro and small businesses have advantages in areas that utilize natural resources and are labor-intensive, especially in the food crop agriculture, plantation, livestock, fisheries, trade, and restaurants sectors. Medium businesses have advantages in creating added value in the hotel, finance, rental, corporate services and forestry sectors. Large businesses have advantages in the processing, electricity, gas, communications and mining industries. So this proves that

MSMEs and large businesses complement each other and need each other, even though in reality MSMEs are more dominant in absorbing labor and contributing to national income (Bilancia, 2017)

Micro, Small and Medium Enterprises (MSMEs) are businesses that play an important role in the Indonesian economy, both in terms of the jobs created and the number of businesses. MSMEs are an abbreviation of Micro, Small and Medium Enterprises. Basically, MSMEs are the meaning of businesses or businesses carried out by individuals, groups, small business entities, or households. Indonesia as a developing country makes MSMEs the main foundation of the community's economic sector, this is done to encourage the ability of independence in developing in society, especially in the economic sector (Gramedia Blog, 2020).

Micro, Small, and Medium Enterprises (MSMEs) have long been the backbone of the economy in many countries, including Indonesia. MSMEs play an important role in creating jobs, driving economic growth, and improving people's welfare. In this context, improving the MSME sector has great potential to have a positive impact on people's welfare. Basically, MSMEs are small businesses owned and operated by individuals or small groups. They often operate on a local scale, producing a variety of products and services, from traditional production to modern technology. The uniqueness of MSMEs lies in their flexibility, creativity, and adaptability in responding to market needs (Vinatara, 2023)

## **THEORETICAL FRAMEWORK**

### **Micro, Small and Medium Enterprises (MSMEs)**

The definition of MSMEs in the Republic of Indonesia Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises varies. The law states that "micro-enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria of Micro Enterprises as regulated in this Law."

By legal definition, a small business is a profitable business run independently by a person or group that is not owned, controlled, or connected in any way with a division or subsidiary of a medium or large company. In contrast, a micro business is a successful, stand-alone business run by a person or group that does not meet the legal

definition and is not part of, owned by, or managed by a larger company that does not meet the requirements to be classified as a micro business (Salsabila, 2024).

The criteria for micro businesses referred to in the law are:

1. Have a maximum net worth of IDR 50,000,000.00 (fifty million rupiah) excluding land and buildings for business premises;
2. Have annual sales results of at most Rp. 300,000,000.00 (three hundred million rupiah).

According to the law, small businesses are "productive economic enterprises that stand alone, carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part of either directly or indirectly a Medium Enterprise or Large Enterprise that meets the criteria of Small Enterprises as referred to in this Law.

### **Types of Small and Medium Enterprises**

According to Soetrisni as quoted by Edillius et al., the types of small and medium businesses in Indonesia in terms of sectoral economic institutions consist of the cooperative sector, the state sector, and the private sector which are divided into Limited Liability Companies, Limited Partnerships, Individual Businesses, and International Companies (Bilancia, 2017).

As quoted by Euis Amalia in Hasan Amin, if viewed based on responsibility, namely the owner's responsibility for the company's debts, then companies can be divided into:

1. Companies with owners who are fully responsible for the company's debts, such as sole proprietorships and partnerships.
2. Companies with owners who are not fully responsible for the company's debts, such as Limited Liability Companies.

### **Characteristics of MSMEs**

MSMEs have different characteristics compared to large companies. Some general characteristics of MSMEs include:

1. Limited capital: MSMEs generally start with limited capital. Business owners often rely on personal savings, small loans, or financial assistance from family or friends.

2. Limited number of employees: MSMEs usually have a limited number of employees. Some are even run by only one person or family of business owners. However, there are also MSMEs that have several dozen employees.
3. Local or regional markets: MSMEs tend to focus on local or regional markets. They serve the needs and demands of their local area, although some may also operate nationally or even internationally.
4. Innovation and flexibility: SMEs often have an advantage in innovation and flexibility. They can quickly adapt their products or services to changing trends or new market needs.
5. Individual or family ownership level: MSMEs are often owned and run by individuals or families. This gives a personal touch to the operation and the business owner is often directly involved in the day-to-day activities.

### **Community Welfare**

Community welfare is a measuring point for a society that is in a more prosperous state than before (Kadeni & Srijani, 2020). In Law No. 11 of 2009 concerning Community Welfare, community welfare is defined as a condition where the material, spiritual, and social needs of citizens have been met so that they can live properly and are able to develop themselves, so that they can carry out their social functions. Community welfare can be defined as a condition in which a person is able to fulfill the physical, spiritual, and social needs of life in accordance with the essence of dignity as a living being (Ahmad Mahmud & Ab Rahman, 2018).

The current social welfare problems show that there are citizens whose basic needs have not been met properly because they have not received social services from the state, so that people are still on the poverty line or even below the poverty line (Murni & Humaira, 2021). Welfare means being able to meet basic needs or clothing, food, and shelter without any hardship. Community welfare can be measured using the Human Development Index (HDI). Human Development Index) which includes health, economic, and education indicators (Kadeni & Srijani, 2020). To realize this welfare, the Central Statistics Agency (BPS) has several indicators used to

measure the level of community welfare, namely income, housing and settlements, education, and health indicators.

Initially, welfare was defined as a state of well-being consisting of three elements as follows: first, how high are the social problems controlled. Second, how broad are the needs met. Third, how high are the opportunities for advancement available. These three elements apply to individuals, families, communities, and even the entire society. Welfare can also be interpreted as a condition of an individual in his life free from poverty, ignorance, fear or worry so that his life will feel safe and peaceful, both physically and mentally. Physical welfare is felt at the general standard concerning the welfare of clothing, food and shelter, while spiritual welfare concerns the intellectual, emotional and spiritual perceptions of the people (Khaliza, 2024)

It can be concluded that welfare is something that must be accounted for by each individual through a good work ethic. So that all life's needs, both material and non-material, can be met, which can be measured by the income received, easily accessible education, increasing and even quality of health. Welfare aims to meet human economic needs, health standards and decent living conditions, get the same opportunities as other citizens, improve one's self-esteem as high as possible, and have the freedom to think and do what one wants without interference in accordance with human rights (Salman Al Farisi, 2022)

### **Factors Affecting Community Welfare**

Community welfare is an important thing to achieve. By improving community welfare, it will improve the quality of life of the community. The factors that influence community welfare include (Khaliza, 2024).

1. Number of family dependents. The number of family dependents is one of the factors that affect welfare. The more family dependents, the greater the needs that must be met. This can cause a heavier economic burden for the family.
2. Family income. Family income is the most important factor in determining welfare. The higher the family income, the higher the level of welfare. This is because income is the main resource to meet the needs of life.

3. Age. Age is a factor that can also affect well-being. The older a person is, the higher their level of well-being. This is because the older a person is, the more experience and skills they have. This can increase job opportunities and income.
4. Savings. Savings are one of the indicators that can show the level of welfare. The higher the savings, the higher the level of welfare. This is because savings are assets that can be used to meet future needs, such as education, health, and retirement costs.
5. Family debt burden. Family debt burden is a factor that can reduce welfare. The greater the family debt burden, the greater the expenditure that must be incurred to pay off debt installments. This can reduce the availability of funds to meet other needs.
6. Location of Residence. Location of residence can also affect welfare. The better the location of residence, the higher the level of welfare. This is because a good location can provide better access to various facilities and services, such as education, health, and transportation.

## METODE

This research model uses a qualitative approach with a literature study research type. This method explains various conditions and situations related to this research. Based on the form of data, this study uses secondary data, while in terms of data type, this study uses qualitative data. As a complement to the qualitative method, the author uses secondary data obtained by reviewing documentation in the form of books, journals, articles, websites and other research results related to the role of UMKM (micro, small and medium enterprises) in improving community welfare and other relevant documents such as citing data from laws and BPS to answer research problems.

The data collection technique used in this study is a thorough review and assessment of the above data. In accordance with the nature and type of data that emphasizes secondary data and is qualitative, this study was analyzed using the descriptive analysis method. After all the data the researcher obtained, the next step the researcher carried out was the data prediction stage, presented the data and drew conclusions that were strengthened by documentation data as stated by Miles and



Hubberman by offering the three models. in-depth which were then analyzed qualitatively with a descriptive pattern. The results of the study are expected to produce a the role of UMKM (micro, small and medium enterprises) in improving community welfare

## RESULTS AND DISCUSSION

### The Role of MSMEs (Micro, Small and Medium Enterprises) in Improving Community Welfare

In general, factors that influence welfare can be grouped into two, namely internal factors and external factors. Internal factors are factors that come from within the family, such as the number of family dependents, family income, age, and savings. External factors are factors that come from outside the family, such as the burden of family debt and location of residence. Community welfare is an important thing to achieve. By improving community welfare, it will improve the quality of life of the community.

There are three reasons for the state to encourage small businesses to continue to grow. The first reason is that small businesses tend to perform well in terms of producing productive labor. Then the second reason, often achieving increased productivity through investment and technological change. This is part of the dynamics of its business that continues to adapt to the times. For the third reason, small businesses have an advantage in terms of flexibility compared to large companies. Micro businesses play an important role in the development of the country's economy, especially for the economy of the surrounding community to meet daily needs, especially in the future.

The role inherent in a person must be distinguished from the position in social relationships. A person's position in society (i.e. social-position) is a static element that shows the individual's place in the organization of society. Role refers more to function, self-adjustment, and as a process. So, a person occupies a status position in society and plays a role.

There are several roles of MSMEs in economic welfare in Indonesia (Vinatra et al., 2023), including:

1. Job creation MSMEs are the main source of job creation in Indonesia. MSMEs are usually more intensive in the use of labor, thus helping to reduce unemployment rates and reduce socio-economic pressures.
2. Increasing local economic growth MSMEs contribute to local economic growth by increasing production and community income. The involvement of MSMEs in the supply chain also provides a multiplier effect that affects related sectors, such as the raw material industry, logistics, and services.
3. Innovation and creativity of MSMEs are often the source of innovation and creativity that contribute to economic progress. Due to their relatively small size, MSMEs can quickly adapt to market changes and create new solutions. In addition, many MSMEs are engaged in creative sectors such as art, design, and technology, which play an important role in driving innovation.
4. Stimulating local economic growth MSMEs play a role in driving local economic growth. MSMEs are often involved in local supply chains by utilizing local raw materials and resources. Through their involvement in activities
5. production and sales, MSMEs contribute to increasing productivity and community income. The income earned by MSME owners will also be reinvested into the local economy, encouraging the growth of other businesses and generating a multiplier effect.
6. Economic diversification of MSMEs helps in diversifying the economic structure of a country by creating diverse business sectors. This reduces dependence on major economic sectors and protects the economy from the risks associated with dependence on a single sector.
7. Contribution to taxes and state revenues MSMEs also contribute to tax revenues and state revenues. MSMEs are required to pay taxes in accordance with applicable regulations. Revenues obtained from the MSME sector can be used by the government to finance various sectors, such as education, health, infrastructure, and other public services.

### **Indicator To Measure the Level of Community Welfare**

The Central Statistics Agency (BPS) has several indicators that can be used to measure the level of community welfare, namely as follows:

1. **Income** Income or earnings is an indicator that can describe the welfare of society. What is meant by income is the total cash receipts obtained by a person or household during a certain period of time (one year). Income consists of labor income, income from property (such as rent, interest, dividends) and allowances from the government.
2. **Housing and settlements** Housing and settlements, in addition to being basic human needs, also have a very strategic function in their role as centers of family education and improving the quality of future generations. In addition, the house is also a determinant of public health, where a healthy and comfortable house is a house that is able to support the health conditions of each occupant.
3. **Education** Education is a human right and the right of every citizen to be able to develop their potential through the learning process. Every Indonesian citizen has the right to obtain quality education according to their interests and talents regardless of social status, economic status, tribe, ethnicity, religion and geographic location.
4. **Health** Health is one of the indicators of population welfare as well as an indicator of the success of development programs. Sick people will find it difficult to fight for their welfare, so that development and various efforts in the health sector are expected to reach all levels of society and are not discriminatory in their implementation. Health is an indicator of welfare that can be seen from whether or not people are able to undergo treatment at health services and are able to fully finance the medicines needed.

## CONCLUSION

Micro, small and medium enterprises (MSMEs) are a very crucial sector for economic welfare in Indonesia. This is because MSMEs play an important role in absorbing labor, increasing community income, creating new business fields, increasing economic equality, and preserving local culture and wisdom. In addition, MSMEs also play an important role in creating jobs, increasing local economic growth, increasing innovation and creativity, stimulating local economic growth, diversifying the economy, and contributing to taxes and state revenues. This can improve economic welfare in Indonesia. The indicators for measuring the level of welfare are income, housing and settlements, education, and health. If the level of community welfare is higher, the level of growth and economic development of the country will also be better. Therefore, the role of the government is needed in paying attention to the existence of MSME actors so that they continue to help support the economic conditions of the common people and continue to improve community welfare.

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