


The Effect of Umkm on Improving Community Welfare in Disadvantaged Areas

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received: 6, Jan, 2025 Revised: 9, Jan, 2025 Accepted: 19, Jan, 2025</p> <p>Keywords:</p> <p>Community Welfare; Disadvantaged Areas; Employment; Local Economic Development; Poverty Reduction.</p>	<p>This study examines the influence of Micro, Small, and Medium Enterprises (UMKM) on improving community welfare in underdeveloped regions. UMKM plays a crucial role in fostering local economic growth by providing employment opportunities, increasing household incomes, and reducing poverty in these areas. This research explores the contribution of UMKM to local socio-economic development, focusing on their role in creating jobs, enhancing education through skill development, and facilitating social mobility. Furthermore, the study investigates the challenges faced by UMKM, including limited access to financing, technology, and markets, which hinder their growth and sustainability. The findings highlight the importance of supportive government policies, infrastructure development, and capacity-building programs in overcoming these barriers. The study concludes that UMKM is a vital driver of economic and social transformation in underdeveloped regions, contributing significantly to the improvement of community welfare. The research provides practical recommendations for policymakers, financial institutions, and other stakeholders to strengthen UMKM's role in driving sustainable development in these areas.</p> <p><i>This is an open access article under the CC BY-NC license.</i></p> 

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1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a very important role in the country's economy, especially in underdeveloped regions (Audina et al., 2024). MSMEs contribute significantly to job creation and community income. In many countries, including Indonesia, MSMEs account for more than 90% of total business units and absorb a large proportion of the labour force, especially in resource-constrained areas. The existence of MSMEs in underdeveloped areas can reduce dependence on large economic sectors and provide sustainable economic alternatives for local communities. In underdeveloped areas, MSMEs are a key driver in improving economic welfare by introducing more inclusive business opportunities. With relatively small capital and a flexible approach, MSMEs are able to adapt to local conditions and offer products and services that meet the needs of the community. The presence of MSMEs can also spur improvements in basic infrastructure such as roads, telecommunications access, and more equitable distribution of goods, which in turn improves the quality of life of local communities (Nurchayati et al., 2022).

In addition, MSMEs in disadvantaged areas have the potential to empower communities and reduce socio-economic disparities. By optimising the potential of local resources, such as handicrafts, agricultural products, or tourism, MSMEs can introduce products that have high selling points in local and international markets (Rohimah & Muslim, 2024). This not only boosts the local economy, but also provides opportunities for communities to improve their skills, knowledge and entrepreneurial capabilities, creating a positive cycle for more equitable welfare improvement. Underdeveloped regions often face a variety of socio-economic issues that hinder their development. One of the main challenges is the high poverty rate, where many communities still depend on subsistence agriculture with limited

income. Lack of access to quality education and adequate health facilities are also major obstacles, leading to low quality of life and social inequality. Inadequate infrastructure, such as damaged roads or limited access to technology and markets, further deteriorates the local economy and slows regional growth (Pratama et al., 2023).

In addition, lagging regions often experience disparities in terms of employment opportunities and social mobility. Many residents are trapped in low-wage jobs and without adequate skills to compete in the wider labour market. This leads to income inequality, with a large proportion of the population still struggling to fulfil basic needs such as food, education and healthcare (Welfare, 2021). Limited access to finance and broader markets also makes it difficult for local entrepreneurs to expand and generate better incomes. To address these socio-economic issues, it is important to improve community welfare with an inclusive and sustainable approach. Economic empowerment through MSME development is a potential solution, as this sector can create jobs, improve access to goods and services, and empower people to innovate and develop their skills. In addition, investments in basic infrastructure, education, and skills training are needed to ensure that people in disadvantaged areas have better opportunities to improve their lives, reduce poverty, and accelerate economic development in the area (Roa & Sanusi, 2018).

The main objective of this study is to analyse the influence of Micro, Small, and Medium Enterprises (MSMEs) on improving community welfare, particularly in disadvantaged areas. This research aims to identify how MSMEs can be the driving force of the local economy by creating jobs, increasing income, and improving the quality of life of the community. In addition, this research will also explore the factors that influence the success of MSMEs in promoting social and economic welfare in areas with limited infrastructure and market access (Baroroh et al., 2023). The scope of this research includes a study of different types of MSMEs operating in disadvantaged areas, with a focus on sectors that have great potential to influence community welfare, such as agriculture, handicrafts, tourism and local trade. The research will utilise mixed methods, combining quantitative and qualitative approaches to gain a more holistic picture of the role of MSMEs in improving the quality of life of communities. The data collected will include analyses of the direct economic impacts of MSMEs, including job creation and contribution to family income, as well as social impacts such as improved access to basic services.

In addition, this research will also evaluate government policies and other supports that facilitate the development of MSMEs in lagging regions. This research is expected to provide evidence-based policy recommendations to strengthen the MSME sector in disadvantaged areas and increase its contribution to community welfare (Idayati & Setiawina, 2019). Thus, the results of this study are expected to provide insights for the government, financing institutions, and MSME players to design more effective strategies to support local economic growth and reduce socio-economic inequality in disadvantaged areas.

2. RESEARCH METHOD

A quantitative approach will be used to measure the economic impact of MSMEs on community welfare, using numerical data that can be statistically analysed (Nursini, 2020). This research could use surveys targeting MSME players and households in disadvantaged areas to collect data related to income, poverty levels, access to education and health. Regression analysis techniques or econometric models could be used to identify the causal relationship between MSME development and improvements in community welfare (Kiraka et al., 2015). In addition, a comparative analysis between areas with a high concentration of MSMEs and areas with few MSMEs can be conducted to look at differences in welfare indicators, such as family income, poverty reduction, and access to public services. The research will provide a more comprehensive picture of how MSMEs can contribute to welfare improvement in disadvantaged areas, as well as the supporting and constraining factors that exist (Daowd et al., 2021).

3. RESULTS AND DISCUSSIONS

3.1 The Concept of MSMEs and Community Welfare

Micro, Small and Medium Enterprises (MSMEs) is a business sector that plays an important role in the economy, especially in developing countries. MSMEs are often identified by the scale of their business, with criteria including the number of workers, annual turnover, and capital held (Audina et al., 2024). Despite having limited resources, MSMEs are able to contribute greatly to job creation, poverty

reduction, and income generation, especially in underdeveloped areas. The main advantages of MSMEs are their flexibility and ability to adapt to local market needs, as well as their potential to drive inclusive and sustainable economic growth.

Community welfare refers to better living conditions that include economic, social, and psychological aspects. Economically, community welfare is often measured through an increase in per capita income, access to decent work, and a reduction in poverty (Basit et al., 2024). It also involves access to basic services such as education, health and adequate infrastructure. Social welfare includes social and cultural aspects that enable people to actively participate in social and economic life. MSMEs can play an important role in improving community welfare by providing employment, increasing household income, and reducing socio-economic inequality, especially in underdeveloped areas.

The success of MSMEs in improving community welfare depends on several factors, including access to finance, skills training, and government policy support. In lagging regions, MSMEs serve not only as drivers of the local economy, but also as a means of community empowerment to overcome various socio-economic challenges (Sari & Kusumawati, 2022). Therefore, effective MSME development can drive improvements in the social and economic aspects of people's lives, creating opportunities to improve their overall quality of life. Micro, Small and Medium Enterprises (MSMEs) are categories of businesses that are grouped based on the size of the business, either in terms of the number of workers, annual turnover, or capital owned. The definition of MSMEs can vary depending on the policies and regulations that apply in each country. In Indonesia, for example, MSMEs are defined according to Law No. 20/2008, where micro businesses are those with an annual turnover of no more than IDR 300 million, small businesses have an annual turnover of between IDR 300 million and IDR 2.5 billion, while medium-sized businesses have an annual turnover of between IDR 2.5 billion and IDR 50 billion. These classifications assist the government in providing targeted support for each business group (Nursini, 2020).

MSMEs have characteristics that distinguish them from large enterprises, which are smaller in scale and more simply managed, often by individuals or families. Typically, MSMEs rely on limited resources, both in terms of capital, technology, and market access. However, despite being limited in scale and resources, MSMEs have advantages in terms of flexibility, ability to adapt quickly to market changes, and proximity to local communities. For example, MSMEs can often respond more quickly to market trends and tap into local potentials that have not been tapped by large enterprises. In the context of developing economies, MSMEs play a very strategic role (Angeles et al., 2022). They serve as economic drivers, not only in creating jobs but also in supporting more inclusive economic growth. MSMEs are an important tool in poverty alleviation, especially in areas that are less accessible to large industries. In addition, MSMEs also have great potential in encouraging local entrepreneurship, improving labour skills, and creating innovations that benefit the surrounding community. Thus, the development of MSMEs is one of the main focuses in economic policy to strengthen economic resilience at the local and national levels.

MSMEs have a very important role in providing employment for the community, especially in areas with high unemployment rates. Most MSMEs are managed by individuals or families, thus absorbing a large number of local labour (Aripin et al., 2023). Many of them employ local people without requiring high skills, which in turn can reduce unemployment and boost the regional economy. MSMEs also tend to be more stable in maintaining labour numbers despite economic fluctuations, as they are more flexible in managing human resources. In addition to providing employment, MSMEs contribute greatly to increasing people's income. Due to their smaller scale and focus on local products, MSMEs are often able to offer affordable products and services that meet the needs of the local community. With business opportunities in MSMEs, local communities can gain additional sources of income that not only reduce dependence on the formal sector, but also improve their quality of life. For example, through small businesses in agriculture or handicrafts, communities can increase their income and achieve economic stability (Putritamara et al., 2023).

MSMEs also open up wider economic opportunities for local communities by introducing innovations, expanding markets, and increasing the competitiveness of the regional economy. Through MSMEs, local products can be sold in both domestic and international markets, which in turn introduces the potential of the region to a larger market. MSMEs also play a role in creating an entrepreneurial ecosystem that supports innovation and new business development, so that people can see more diverse economic opportunities. With these benefits, MSMEs not only improve the local economy but also contribute to community empowerment in achieving better welfare (Susanti et al., 2023).

3.2 Factors Affecting the Success of MSMEs in Improving Welfare

a. Human Resource Skills and Capacity

Improving the capacity of human resources (HR) has a significant impact on the productivity and success of MSMEs. Skilled and well-trained human resources are better able to manage limited resources more efficiently and meet the challenges of running a business. Training in technical and managerial skills, as well as an understanding of marketing and finance, will improve the ability of MSME actors to make better decisions, manage business operations more effectively, and optimise production (Chowdhury et al., 2023). With better HR capacity, MSMEs can improve the quality of their products and services, which in turn can increase their competitiveness in the market. In addition to technical skills, HR capacity building also includes developing soft skills, such as leadership, communication, and adaptability to market changes. These skills are essential for strengthening relationships with customers, suppliers, and other business partners, as well as building wider networks. The ability to innovate and overcome problems that arise in the business also depends heavily on the quality of human resources. In MSMEs, business owners and employees who have broader horizons and higher skills can respond to market changes faster and more appropriately, which in turn increases the success of the business (Anwar & Abdullah, 2021).

The success of MSMEs is greatly influenced by their ability to adapt to technological developments and market trends. Therefore, continuous human resource capacity building is key to maintaining business sustainability and growth. By accessing the right training and education, MSME players will be able to take advantage of new opportunities, such as the utilisation of digital technology in marketing or production, which can increase their productivity (Hamadamin & Atan, 2019). As a result, MSMEs with qualified human resources will be more productive, more innovative, and better equipped to compete in the global market, and will be able to create more and sustainable jobs.

b. Access to Finance and Technology

Access to finance is one of the key factors that can accelerate the growth of MSMEs. Without sufficient financial support, many MSMEs struggle to grow their businesses, purchase raw materials, expand production capacity, or innovate in product and service development. Appropriate financing, whether through microenterprise loans, grants, or non-bank financial institutions, gives MSMEs the opportunity to overcome their capital constraints (Bustinza et al., 2019). With better access to financing, MSMEs can increase productivity and efficiency, thereby supporting faster and more sustainable business growth. In addition to financing, access to technology also plays an important role in accelerating the growth of MSMEs. Modern technology allows MSMEs to improve operational efficiency, minimise costs, and speed up production. The use of technology in business processes, such as production automation, digital-based inventory management systems, and marketing through online platforms, can improve product quality and expand markets. By adopting technology, MSMEs can compete better in an increasingly competitive market, while creating innovations that are relevant to current market needs (Azeem et al., 2021).

Access to broader markets is another important factor in driving MSME growth. Many MSMEs are limited to the local market due to lack of effective distribution and promotion

networks. However, with access to larger markets, both domestic and international, MSMEs have the opportunity to increase their sales and revenue. E-commerce platforms, trade fairs, and partnerships with large corporations provide opportunities for MSMEs to introduce their products to a wider audience (Sari & Kusumawati, 2022). With support in expanding market networks, MSMEs can grow their businesses, improve their competitiveness, and open up new and more profitable business opportunities.

c. Government Policy and Infrastructure

Government policies play a crucial role in supporting the development of MSMEs, particularly through the provision of incentives, financing facilities, and training that can strengthen business capacity. Pro-MSME policies, such as providing low-interest loans, tax deductions, or business mentoring programmes, can help overcome key challenges faced by MSMEs, such as limited capital and managerial skills (Sari & Kusumawati, 2022). In addition, policies that support MSME development can also strengthen the competitiveness of micro and small enterprises in the face of increasing market competition, as well as provide protection for the rights of small enterprises in the global market. Infrastructure factors also greatly affect market access and distribution of MSME products. Good transport infrastructure, such as smooth roads and efficient logistics systems, facilitate the distribution of goods from producers to consumers, both locally and internationally. Without adequate infrastructure, distribution costs can increase, which in turn reduces the competitiveness of MSME products. Limitations in transport can also make it difficult for MSMEs to reach wider markets, which hinders business expansion and revenue growth (Redjeki & Affandi, 2021).

3.3. Social and Economic Impact of MSMEs in Disadvantaged Areas

MSMEs have a significant social and economic impact in underdeveloped areas by providing much-needed employment to local communities. In areas with high unemployment rates and a lack of formal employment opportunities, MSMEs are often the primary solution to reducing unemployment. In addition to creating jobs, MSMEs also play a role in increasing household income, which can reduce poverty and provide better access to basic services such as education and health. As such, MSMEs serve as a key driver in improving the quality of life of people in disadvantaged areas (Nursini, 2020).

The economic impact of MSMEs in lagging regions is also huge as the sector helps boost the local economy. Thriving MSMEs can introduce local products to a wider market, both nationally and internationally, which in turn increases the economic competitiveness of the area. Income generated from MSMEs is often utilised for local consumption, creating an economic cycle that supports other businesses in the vicinity (Dasaraju et al., 2020). In addition, MSMEs also play a role in reducing dependency on larger economic sectors, which are often less present or have limitations in disadvantaged areas. Socially, MSMEs help strengthen the social fabric of communities by increasing community involvement in economic activities. When people are involved in running or supporting MSMEs, they get the opportunity to develop their skills, enhance their entrepreneurial capacity, and expand their social and economic networks. MSMEs can also introduce entrepreneurial values and collaboration at the local level, which strengthens social solidarity and creates a culture of entrepreneurship in the community. In the long run, the development of MSMEs can contribute to positive changes in people's mindsets and attitudes towards economic opportunities, accelerating socio-economic transformation in disadvantaged areas (M. A. Dewi, 2020).

MSMEs contribute significantly to poverty reduction in lagging regions by creating jobs that are accessible to people who are less skilled or have limited education. Most MSMEs in lagging regions tend to absorb large numbers of local labour, most of which come from low-income households. With decent and stable employment, households can increase their income, which in turn reduces dependency on social assistance and improves economic welfare. Better income also enables them to fulfil basic needs, such as food, shelter and healthcare, which directly contributes to poverty reduction. In addition to poverty reduction, MSMEs also play a role in improving education in disadvantaged areas (Tekola & Gidey, 2019). The increased income earned from employment in MSMEs allows families to allocate more funds for their children's education, which previously may have been hindered by economic limitations.

In addition, MSMEs often provide skills training that can improve the quality of human resources at the local level. This training not only focuses on technical skills related to the business, but also includes managerial and entrepreneurial skills, which opens up further educational opportunities for individuals to thrive in the world of work and business (Cueto et al., 2022).

MSMEs also play a role in enhancing social mobility in disadvantaged areas by providing opportunities for individuals to move up to better social and economic levels. Through engagement in MSMEs, many people who were previously trapped in a cycle of poverty can gain experience, skills and networks that improve their social position. When individuals successfully grow their businesses, they not only earn higher incomes, but also improve their social status, creating a difference in the lifestyles and opportunities that their families can access. Thus, MSMEs not only help people fulfil their daily needs, but also provide opportunities for them to achieve a better life and participate in broader social and economic development (Prasetyo et al., 2020).

The sustainability of MSMEs in disadvantaged areas is highly dependent on the ability of the business to survive and thrive in the long term, despite often facing various challenges. MSMEs that succeed in achieving sustainability are not only able to maintain their operations, but are also able to innovate and adapt to changes in markets, technology and economic policies. This sustainability is achieved through efficient management, improved product quality, and the utilisation of wider market opportunities (H. U. Dewi, 2019). However, to achieve sustainability, MSMEs in disadvantaged areas need support from various parties, including the government, financial institutions, and local communities, in order to overcome existing obstacles and develop well.

The biggest challenge facing MSMEs in lagging regions is limited access to finance, which hinders their ability to expand their businesses and innovate. Many MSME players in disadvantaged areas struggle to obtain credit from formal financial institutions due to limited collateral, poor understanding of finance, or inability to fulfil administrative requirements. In addition, access to technology and training needed to improve business capacity is often limited (Umar & Kunda-Wamuwi, 2019). Without adequate access to these resources, it is difficult for MSMEs to improve operational efficiency, introduce new products, and compete in larger markets. In addition, MSMEs in disadvantaged areas also face challenges related to inadequate infrastructure, such as poor transport, limited internet access, and lack of distribution facilities. Poor infrastructure hinders the smooth distribution of goods, increases operational costs, and reduces the competitiveness of MSME products in the wider market. On the other hand, low internet penetration in disadvantaged areas limits the ability of MSMEs to utilise digital platforms in marketing and selling their products, which is increasingly important in the digital economy era. Therefore, to ensure the sustainability of MSMEs in lagging regions, greater investment is needed in infrastructure development, skills training, as well as easier access to financing and technology that support business development.

Discussion

In this discussion, various factors that affect the sustainability of MSMEs, especially in disadvantaged areas, ranging from access to financing, technology, to adequate infrastructure, have been outlined. The influence of MSMEs on the welfare of communities in disadvantaged areas is also very significant, with their contribution in creating jobs, increasing income, and playing a role in community empowerment. However, there are still many challenges faced by MSMEs in disadvantaged areas, such as limited access to capital, technology, and broader markets. Thus, the main focus of future research needs to be directed towards exploring more in-depth solutions to overcome these challenges and support the sustainability of MSMEs. However, although there have been many studies that discuss the influence of MSMEs on the local economy and community welfare, there are still gaps that need to be addressed in research on MSMEs in disadvantaged areas. Some existing studies tend to focus on general economic aspects, without delving deeper into how specific local factors, such as the culture and social structure of the community, influence the success of MSMEs. Further research also needs to highlight the role of government policies in encouraging the development of MSMEs in disadvantaged areas, as well as further explore how MSMEs can adapt to technological changes and market globalisation.

In addition, many studies have not explored in detail the sustainability of MSMEs in the context of disadvantaged areas, both from a financial and social perspective. Some studies may have covered the importance of training and access to finance, but not many have linked MSME sustainability factors to inadequate infrastructure or other barriers such as regulatory and bureaucratic constraints. This gap opens up opportunities for more in-depth research on the role of external factors such as local government policies, digital technology support, and infrastructure development in creating an ecosystem that supports MSME sustainability in disadvantaged areas.

The practical implications of this research on the influence of MSMEs on improving community welfare in disadvantaged areas are very important for the development of economic policies that support MSMEs. The results of this study can serve as a basis for local and central governments to design more targeted policies in providing support to MSMEs, such as providing easier access to financing, relevant skills training, and improved infrastructure that supports the distribution of goods and market access. In addition, stakeholders such as financial institutions and technology service providers can develop products and services that better suit the needs of MSMEs in disadvantaged areas, to help them improve their business efficiency and competitiveness.

From a theoretical perspective, this research contributes to the development of theories of local economic development and entrepreneurship by integrating the perspective of MSMEs in the context of disadvantaged areas. It expands our understanding of how MSMEs serve not only as drivers of local economic growth, but also as agents of social change that can reduce poverty and improve community welfare. It also enriches the literature on the relationship between economic policy, infrastructure and business sustainability in areas with greater economic and social challenges. Overall, the practical and theoretical implications of this study underscore the importance of a multidimensional approach in developing MSMEs in disadvantaged areas. This involves synergising government policies, access to technology and financing, and strengthening human resource capacity to create an ecosystem that supports the sustainability and growth of MSMEs. This research also opens up room for further research that can explore other factors that influence the development of MSMEs in disadvantaged areas, as well as provide more specific and applicable recommendations for the various stakeholders involved.

4. CONCLUSION

Overall, MSMEs have a significant influence on improving community welfare in disadvantaged areas. Through the provision of extensive employment opportunities, MSMEs help to reduce unemployment rates and provide opportunities for people to increase their income. Engagement in MSMEs allows individuals to earn a more stable income, which has a direct impact on reducing poverty and improving quality of life. As such, MSMEs play an important role in boosting the local economy and creating a more prosperous environment in disadvantaged areas. In addition to direct economic impacts, MSMEs also contribute to the improvement of education and social empowerment of communities. Through skills training and experience gained from working or running a business, people in disadvantaged areas can access non-formal education that opens up opportunities for further self-development. MSMEs create space for individual capacity building, which strengthens social networks and supports social mobility at the local level. This not only improves the family economy, but also strengthens the social fabric of the community. However, despite the positive impact of MSMEs on community welfare, major challenges faced by MSMEs in lagging regions, such as limited access to finance, technology and markets, still need to be addressed. To ensure that the impact of MSMEs can grow sustainably, support is needed from various parties, including the government, financial institutions, and the communities themselves. With the right policies, adequate infrastructure development, and human resource capacity building, MSMEs will be better able to overcome these challenges and contribute more to the welfare of communities in disadvantaged areas.

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