



# MSMEs as the hope of community-based economic development: a literature discourse

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## ABSTRACT

The study aims to examine the role of MSME (Micro, Small, and Medium Enterprises) empowerment in fostering economic development at the national level. This research employs a qualitative descriptive approach to comprehensively explore the topic. The primary method used is a literature review, gathering data from previous studies, particularly those focused on economic empowerment. MSME economic empowerment represents a collaborative effort involving various stakeholders, including the government and society, aimed at achieving social welfare. MSMEs play a vital role in facilitating national economic growth and promoting equity, with their numbers continually increasing over time. As the MSME sector expands, it also generates higher employment opportunities, consequently reducing unemployment rates and increasing per capita income. This, in turn, contributes to poverty reduction. Therefore, it is necessary for the government to provide substantial support and collaborate with stakeholders to empower MSMEs fully. This empowerment serves as an alternative strategy to address economic challenges and inequalities, ultimately fostering social and economic development.

**Keywords:** Community based economy; social welfare; National economy; MSME empowerment

## 1. INTRODUCTION

Regional potential-based economic development basically focuses on strengthening the capacity of people's economic institutions such as Micro, Small and Medium Enterprises (MSMEs) by creating centers for the development of regional superior products in accordance with the culture and potential of the region they have. Community empowerment activities in the economic sector can be carried out through efforts to

empower Micro, Small and Medium Enterprises (MSMEs) in the regions of the State of Indonesia. The MSME sector is a manifestation of the community-based economy system which is able to carry out the principles of the community-based economy system in its economic activities. The majority of MSMEs manage local natural resources that have the potential for the prosperity and welfare of the community. MSME development through a business empowerment approach needs to pay attention to social and cultural aspects in each region, considering that small and medium enterprises generally grow directly from the community.

In implementing the concept of a community-based economy, it is imperative that MSMEs play an important role. MSMEs, being an integral part of the local economic system, hold the potential to stimulate economic equity from the grassroots level, thereby contributing significantly to national economic growth. As noted by Melati et al. (2022), the substantial presence of MSMEs can significantly bolster the government's efforts to elevate economic growth, with the national economy closely tied to the presence and performance of MSMEs. Hence, wholeheartedly supporting and harnessing the potential of MSMEs is a crucial step toward achieving a stable and balanced national economy.

Up to this point, the community-based economy has underscored the pivotal role played by MSMEs in economic development. These enterprises constitute a business segment that can substantially contribute to both macro and microeconomic growth. Given the presence and roles of MSMEs, the aspirations of economic growth and equity become eminently achievable. It is of utmost importance to harness and fully maximize the potential inherent in MSMEs. Failing to do so would be a missed opportunity, and as noted by Melati, et al. (2022), it is regrettable that MSMEs in Indonesia still face significant challenges.

However, upon scrutinizing the issues related to empowering MSMEs, it becomes evident that these entrepreneurs continue to encounter obstacles. These issues encompass a spectrum of internal and external challenges, with access to capital and ensuring business sustainability standing out as the most pressing concerns. It is disheartening to note that these problems, especially regarding capital, persist and have not yet found definitive solutions, despite being longstanding and well-recognized challenges.

According to Zia (2020), MSMEs have a strategic role and potential, namely being able to absorb labor and survive even during a world crisis, however, there are still problems, especially in access to capital. In line with that, in Andrean et al. (2023), it is stated that MSMEs are one of the pillars of the national economy, but they still often face problems in the form of difficulty accessing financing. In Syahril's research (2021), it was also stated that in the management of MSMEs that there was a lack of funds or capital, making it difficult for this business to develop.

Sari, L. P., & Arka, S. (2023) stated that the obstacle for MSMEs is limited access to the capital. According to Suhartini (2014), limited capital is due to the limited access to

obtain additional capital from banks. To overcome this problem, the government issued a policy through financing people's business loans known as KUR. Even though KUR has been channeled through banks, it seems that MSMEs have not been able to provide requirements that can be accepted by banks. In Zia (2020), it was stated that in fact, BI has helped MSMEs but only some MSMEs can get access to bank credit. This is because not all MSMEs can meet collateral requirements.

Suryati & Salkiah (2019) in their research also revealed the same problem that MSME actors experience problems in accessing capital. Besides that, the expansion of the marketing network is still focused on local and conventional domains, causing obstacles to the space for movement in building its business network. Despite the Office of Industry, Cooperative SMEs have carried out the duties of SMEs by carrying out various programs to build SMEs.

Based on the research report of Primiana (2009) in Zia (2020), several problems were raised in the existence of MSMEs in Indonesia, including: 1) difficulty accessing bank loans due to an inability to fulfill bankability requirements. Although Bank Indonesia has extended support to MSMEs, not all of them meet the collateral prerequisites; 2) Limited knowledge among MSMEs regarding alternative sources of financing apart from banking institutions; and 3) Capital unavailability when orders arise, necessitating rapid fund access to fulfill orders. These challenges underscore the need for comprehensive support and solutions to bolster MSMEs and foster their growth,

Meanwhile, existing laws and regulations have not provided legal certainty to MSMEs in terms of access to capital related to credit guarantees. There are more legal products regarding the protection of MSMEs, especially from access to capital and business partnerships. Unfortunately, of the many legal products that have been issued by the government, they have not been effective in developing MSMEs as stated in Article 33 of the Constitution, namely to create an economic democracy that is reliable and independent and can compete both on a regional and global scale.

Therefore, special attention is needed for MSME actors. As stated by Helmalia and Afrinawati (2018); and Hijran & Oktariani (2021) that MSMEs can be a priority of the populist economic system to tackle problems such as poverty and unemployment. The concept of populist economy is ideal so that the main focus that must be prioritized is empowering the community's economy with various efforts to support the local and national economy.

The concept of a community-based economy is an ideal for development and certainly relevant to the potentials that exist in Indonesian society. However, this needs to be properly supported by all existing parties, especially the government and financial institutions so that they can collaborate well in advancing the community-based economy. One of the efforts taken by the government to develop MSMEs is through MSME credit distribution. With this credit facility, it is expected that MSMEs can develop

optimally to participate in overcoming the nation's crisis to overcome high levels of unemployment and poverty.

Therefore, the urgency behind this research is to support the discourse of literature, especially in the field of community-based economy. Bearing in mind that the goal of community-based economy to develop the economy evenly can be realized through maximizing the roles of MSMEs with all their potential to increase the rate of growth of the national economy and at the same time reduce social inequality that exists in society. Therefore, the results of this study are expected to contribute theoretically in enhancing the results of future studies.

## **2. METHODS**

This study uses a qualitative descriptive approach to review the research topic narratively. The approach used is a library or literature study approach with the method of collecting data from the results of previous studies, especially those that reveal studies of economic empowerment.

## **3. RESULTS AND DISCUSSION**

### **Community Economy Concept**

Building the national economy is actually a technical term, namely by exploring economic resources in the real sector autonomously. One of the concepts offered is community economic empowerment. Community-based economy is a conception of economic thinking developed by Mohamad Hatta who is known as the Father of Economics in Indonesia. The conceptual framework that is built from the community-based economy has a strong connection with the meaning in Pancasila. Therefore, the community-based economy is also referred to as the Pancasila economy. One of the efforts to make this concept massive, of course, is to empower the community as the goal to create equity, balanced, and fair standard of living.

Based on its definition, a community-based economy is a system run by a country by utilizing the potential of the community in advancing the national economy. According to Mubyarto (2002) in Wibawa, D. P., & Yusnita, M. (2019), the community-based economy system is an Indonesian national economic system that is based on kinship, community's sovereignty, Pancasila morality, and shows genuine support for the people's economy. An absolute requirement for the functioning of a socially just national economic system is sovereignty in the political field, independent in the economic field, and personality in the cultural field.

The community-based economy is built on the basis of the existing economic power of the community. In Melati, et al. (2022), it is stated that the community-based economy is an economic system that provides the widest opportunity for the community to participate in economic development. The community-based economy necessitates the foundation of productivity in the hands of the people by providing the widest opportunity

for the people to build an economic system for the sake of an equity, balanced, and fair national economic escalation.

Basically, the community-based economy is an integral part of the concept of economic development, in which one of the ideals of equitable economic development is impossible to realize by setting aside the concept of the people's economy. That is why the principles that are built in a populist economy always refer to economic equity by bringing up the independent spirit of the people to take a role in the country's economy.

Strong evidence as a support for the view that the community-based economy is part of the development economy, namely the existence of similarities in the objectives of the development economy with the community-based economy which necessitate shared welfare and prosperity as goals that must be achieved. Quoting Huzain's opinion (2022), the main objective of the community-based economy system is to guarantee the welfare and prosperity of the community equally that is more important than the prosperity of individuals and a handful of groups that control the factors of production.

The concept of the community-based economy is inseparable from the upheaval that occurred which degraded the economy in a state structure. Because it happens within the state, the solution to it is a shared responsibility, especially for the government. The application of the concept of economic growth which does not require fair economic equality has implications for economic stability and this creates economic gaps and discrepancies, so that it becomes crucial for reconstructing the economic concept. The basis of this problem is the main reason why Mohamad Hatta initiated the community-based economy.

Based on its history, the concept of community-based economy is an idea in the field of economics developed by Soekarno and Hatta in the 1930s. Soekarno used the term community-based economy to deal with the monopoly economic system. Swasono's research (2014) suggests that Mohamad Hatta's opinion on community-based economy uses the terms *ra'jat* economy. *Ra'jat* economy refers to the understanding of gras-roots economy or people-based economy and an economy centered on the interests of the people (people-centered economy). Mohammad Hatta's thoughts were elaborated in several articles published in the daily Daulat Ra'jat: "Colonial Effects of Capital in Indonesia" published on 20 November 1932; "Our Stand" published on September 10, 1932; "The World Crisis and the Fate of the Indonesian People" published on September 20, 1932; and the most monumental was his writing on June 10, 1934 entitled "Ra'jat's Economy is in Danger". The background of Mohammad Hatta's writings from 1932 to 1934 above was driven by his concern with the politics applied by the Dutch, where economic policies were not centered on the interests of the people in question.

This concept was emphasized by Moh. Hatta in the spirit of people development. The idea is to try to reduce the tension gap (poor and rich) that has emerged. However, to achieve this, we must emphasize the spirit of mutual cooperation, promoting economic unity, and democracy. The last concept is an independent economy. This spirit of self-

sufficiency is very important considering that Indonesia itself has gone through difficult times due to years of foreign colonization. This should also alleviate the concentration of wealth in minority groups/political parties. Even though this is in line with Islam which does not allow monopoly practices by individuals or groups, it is the importance of partnering with large and small companies and encouraging them to be more competitive so that existing companies can grow and compete without being attacked by foreigners.

The concept of a community-based economy actually departs from the participatory concept. It is said so, because the populist economy emphasizes the responsibilities and obligations of the people to participate in economic development. That is why the community-based economy has a family principle and it is in line with the meaning of Pancasila because it departs from the community's participation to collaborate in advancing economic construction on a wider scale.

The basic paradigms of community-based economic development are as follows:

- a. Refreshment of economic nationalism against all forms of system injustice and economic policies.
- b. A multidisciplinary and multicultural approach to sustainable development.
- c. Reviewing the education and teaching of economics and social sciences in schools and colleges.

The community-based economy tendency which is based on the fundamental values of the law and Pancasila necessitates a moral aspect to be echoed so that the manifestation of the economic goals to be achieved is also very characteristic. The concept of a community-based economy that strives for local potential to be empowered is a form of acknowledging the concept of the existence of a community with its potential, that the community has the potential to manage and develop available resources. It is not impossible to realize it because the community understands their conditions and needs better.

In achieving the economic potential of the maximum resources that exist in society, the main task is how to maximize the management of this potential by seeking the development of skills through education, health, and how to take advantage of opportunities in sight, in order to create human resources that are more progressive in achieving social economic goals.

### **MSME Empowerment with Their Potentials**

One business actor that has an important existence but it is sometimes considered to be forgotten in the policy arena in this country is micro, small, and medium enterprises (MSMEs). In fact, if it is analyzed more deeply, the role of MSMEs is not just as a supporter

in contributing to the national economy. MSMEs in the national economy have important and very strategic roles.

Differences in the definition of MSMEs that occur between government departments also occur in Indonesia, such as between the Regional Office of Trade and the Central Statistics Agency (BPS), each of which has certain benchmarks in understanding the concept of MSMEs in Indonesia. According to Hamdani, there are many definitions of small and medium enterprises. The definition of small and medium enterprises and their criteria is very diverse. This uniformity is more due to the definition of parties or government institutions that formulate policies for the development of small and medium enterprises. In practice, different government departments and agencies have different criteria for defining small and medium enterprises. This difference can be seen, for example, in the Department of Industry and Trade (Dispendag and the Central Bureau of Statistics (BPS)). The Department of Industry and Trade measures small and medium industries based on the value of the initial investment (assets), while the Central Bureau of Statistics defines small businesses as business units with a number of employees.

According to Hasanah, et al. (2019), MSMEs are micro, small, and medium enterprises that are represented to business actors engaged in various business fields that include the interests of society. Community interests cover all aspects of fulfilling community needs to maintain the survival of their economy. This is the basis for why people need to build MSMEs.

MSMEs are an integral part of the community-based economy which has a strategic position to realize a national economic system that is more balanced, developed and just. To achieve this goal, the implementation of the national economy is emphasized towards an economic system that is pro-community-based economy, equitable, reliable, fair, accountable, transparent, and has competitiveness in the regional and global economic arena.

The concept of economic empowerment is actually a response and an alternative to the existing imbalances in the economic structure. That inequality and social inequality need to receive serious attention from every stakeholder, because if left unaddressed continuously, it will not only have a big impact on the region, but also on a national scale.

Empowering the potential of MSMEs also means acknowledging the existence of MSMEs with their independence in managing an autonomous economic system for the direction of creating a balanced, developing and just economy as well as aspirations in the community-based economy, so that MSMEs must receive more attention to be empowered. Indirectly, when empowering MSMEs, at the same time it means supporting the implementation of the community-based economy, because MSMEs are a real manifestation of the community-based economy.

Rahmawati stated that as an integral part of the people's economy, MSMEs have a strategic position, role, and potential to create a national economic structure that is increasingly developed and just. Empowerment of MSMEs is carried out in a

comprehensive, optimal, and sustainable manner through the development of a conducive climate, providing business opportunities, support, protection and business development as wide as possible so as to increase the position, role, and potential of MSMEs in realizing economic growth, equity and increase in people's income, creation of opportunities work and poverty alleviation. In line with this, it is stated that Micro, Small and Medium Enterprises (MSMEs) are an important sector and have a large contribution to realizing national economic development goals, such as economic growth, employment opportunities, increasing national foreign exchange, and regional economic development.

MSME economic empowerment is a joint effort made among stakeholders, government and society in realizing social welfare. With the existence of MSMEs, achieving national economic growth and equity will be easier because the existence of MSMEs will always increase from time to time. In Retnowati, T., & Boediningish, W. (2018), it is stated that the MSME sector controls approximately 90% of the business sector in Indonesia which can also be read that the MSME sector as a sector that represents the Indonesian community-based economy. This is due to one of the reasons that MSME is one of the economic fields in the real sector which is very easy to run.

MSME economic empowerment is a real framework for building, developing, and increasing management capability for MSME with the aim of improving their economic standard of living. Empowering the MSME economy, or carrying out efforts to improve the living standards of the MSME economy which also means at the same time supporting massive economic development nationally. This also intersects with the concept of community-based economy where this is a concept built to empower the community-based economy by developing existing local potential and resources through collectively participatory alternatives from all levels of society.

Economic empowerment is a study of efforts to encourage, motivate, and stimulate the collective spirit of community productivity. One of the productive work enthusiasms in society is oriented by building a business spirit by building MSMEs. The existence of MSMEs is believed to be the main source of support in increasing the standard of living of the community in an equitable, balanced, and fair manner while at the same time increasing the national economy. Absolutely, This is in line with the initial ideals of development economics which are derived from the concept of community-based economy.

Therefore, the community can participate in building a stable economic system on a national scale. Community participation is represented by their involvement in developing the potential and role of the MSME businesses they run. The existence of MSMEs is considered important in reducing poverty, because their potential which has high flexibility makes MSMEs easy to work on and manage so that it is very possible for the number of MSMEs to grow. Along with the growing number of MSMEs, the absorption of labor will also be higher, which will eventually reduce unemployment and increase people's per capita income. Obviously, this will reduce poverty.



## CONCLUSION

MSME economic empowerment is a joint effort made among stakeholders, government, and society in realizing social welfare. With the existence of MSMEs, achieving national economic growth and equity will be easier because the existence of MSMEs will always increase from time to time. Along with the growing number of MSMEs, the absorption of labor will also be higher, which will eventually reduce unemployment and increase people's per capita income. Obviously, this will reduce poverty. Therefore, MSMEs need to be empowered by the government through full support and elaboration with stakeholders for the purpose of reducing social inequality as an alternative in responding to economic challenges and problems.

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