

## UMKM EMPOWERMENT STRATEGIES FOR LOCAL ECONOMIC IMPROVEMENT: A LITERATURE REVIEW

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### **Abstract**

MSME empowerment strategies for local economic improvement demonstrate the important role of MSMEs in driving economic growth at the local level. This study examines various empowerment strategies that include education and training. The results show that education and training improve the skills and capacity of MSME actors, making them better equipped to face business challenges. Easy and flexible access to finance enables MSMEs to make the necessary investments for their business development. In addition, conducive policy and regulatory support from the government is also considered important in creating an enabling environment for MSME growth.

**Keywords:** Strategy, MSME Empowerment, Local Economy.

### **Introduction**

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in a country's economy, including Indonesia. MSMEs are recognised as key drivers in creating jobs, reducing unemployment, as well as promoting income equality and local economic development. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises, MSMEs contribute more than 60% of Indonesia's Gross Domestic Product (GDP) and absorb more than 97% of the national workforce. (Simmie, 2020).

A national economy is the totality of economic activity within a country that includes the production, distribution, and consumption of goods and services. The national economy involves various sectors such as agriculture, industry, services, and trade that interact through interrelated markets. On a national scale, the economy is governed by policies made by the central government to achieve economic goals such as economic growth, price stability, and unemployment reduction. (Ramadhani, 2023). The government plays a role in managing fiscal and monetary policies to maintain national economic balance and ensure equitable development between regions. The main indicators used to measure the performance of the national economy include Gross Domestic Product (GDP), inflation rate, and unemployment rate. (Budiman & Faujiah, 2023).

Local economies refer to economic activity within a smaller geographical area, such as a city, district or province. Local economies are usually more focused on sectors that have a competitive advantage in the area, for example agriculture in rural areas or tourism in areas that have superior tourist destinations. (MH & Fitriyah, 2024). In this context, local governments play an important role in developing policies that support local economic

growth, such as business licensing, infrastructure provision, and local investment promotion. In addition, local economies are often influenced by small and medium-sized enterprises (SMEs), which form the backbone of the local economy. Local economic performance can be measured through indicators such as Gross Regional Domestic Product (GRDP), per capita income, and the labour force participation rate in the region. (Johnston & Wells, 2020).

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the national and local economy as they are able to create a wide range of economic opportunities. Nationally, MSMEs contribute significantly to the Gross Domestic Product (GDP) and are able to absorb a large proportion of the workforce. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises, MSMEs contribute more than 60% of Indonesia's GDP and provide employment for more than 97% of the national workforce. The existence of MSMEs helps to equalise income distribution and reduce economic inequality as the majority of MSMEs operate in rural areas and small towns, thus supporting the economic development of underdeveloped regions. (Page, 2022).

At the local level, MSMEs are key drivers of the local economy by creating added value through the production of diverse goods and services. MSMEs often operate in sectors that are directly linked to the needs of local communities, such as food and beverages, handicrafts, and trade and repair services. By focusing on local market needs, MSMEs are able to compete and adapt quickly to changes in consumer demand. (Wise, 2023). In addition, MSMEs are often an integral part of local economic networks that support each other, creating dynamic and sustainable economic ecosystems. Thus, the role of MSMEs is essential in fuelling local economies, creating social stability, and promoting inclusive growth (Liddle, 2022). (Liddle, 2022).

However, despite the significant role of MSMEs, the sector still faces various challenges that hinder its development and contribution to the local economy. Some of the key challenges faced by MSMEs in Indonesia include limited access to capital and financing sources, lack of knowledge and skills in business management, and limited access to technology and innovation. These challenges are compounded by a business climate that is often not conducive due to complex regulations and bureaucratic red tape. (Destianah, 2021).

The strategy of empowering MSMEs is the answer to the various challenges faced by this sector. MSME empowerment includes various initiatives and programmes that aim to improve the capacity and capability of MSMEs in various aspects such as access to finance, improvement of managerial skills, utilisation of technology, and wider marketing networks. (Baum et al., 2021). Thus, MSME empowerment is expected to not only improve the competitiveness of MSMEs themselves, but also make a significant contribution to the local economy.

This research aims to examine various MSME empowerment strategies that have been implemented, both locally and globally, with a focus on how these strategies can improve the local economy.

## **Research Methods**

The study in this research uses the literature method. The literature research method is an approach used to collect, evaluate and analyse previously published information on a particular topic. This research does not involve experimentation or direct primary data collection, but instead utilises secondary sources such as books, scientific journals, articles, reports, and credible websites. The aim is to gain an in-depth understanding of the topic under study, identify research trends, find gaps or shortcomings in the existing literature, as well as provide a theoretical context for further study. The literature research process includes searching for reference materials, assessing the quality and relevance of the sources, and synthesising the results to present a comprehensive perspective on the issues raised. (Hidayat, 2009); (Afiyanti, 2008); (Syahrizal & Jailani, 2023)..

## **Results and Discussion**

### **The Role of MSMEs in the Local Economy**

Micro, Small, and Medium Enterprises (MSMEs) are a type of business distinguished by the amount of assets and annual turnover, which generally has a smaller scale than large companies. MSMEs play an important role in the economy, especially in job creation, income distribution, and driving the local economy. The characteristics of MSMEs include relatively small capital, a small workforce, business management that is often family-based, high flexibility in operations, and a market reach that is usually more limited. (Popa, 2023). In Indonesia, the criteria for MSMEs are differentiated based on Law No. 20/2008, which sets asset and turnover limits to categorise micro, small, and medium enterprises. These MSMEs often face challenges such as limited access to capital, technology, and markets, but have great potential to grow with innovation and the right policy support. (Mycoo, 2024).

Empowerment in the context of MSMEs refers to the process of enhancing the capabilities, independence, and competitiveness of micro, small, and medium enterprises through various programmes and initiatives. These include skills training, providing access to financial resources, business mentoring, and opening wider market access. The goal is to increase the productivity and sustainability of MSMEs, so that they can contribute more significantly to the national economy. This empowerment also aims to strengthen managerial capacity, increase innovativeness, and expand MSME business networks, so that they can compete in a more competitive market. With effective empowerment, MSMEs are expected to be able to overcome various challenges faced, improve the quality and quantity of production, and create more and sustainable employment opportunities. (Redwood et al., 2022)..

MSMEs play an important role in the local economy by being the backbone that supports the economic structure in the regions. One of the biggest contributions of MSMEs is in job creation. With a larger workforce in the sector compared to large

enterprises, MSMEs absorb local labour and reduce unemployment rates, ultimately improving the welfare of local communities. These jobs not only provide income for individuals, but also strengthen family economies and improve the living standards of local communities. (Burnett, 2023).

In addition, MSMEs play a role in driving local economic growth through increased economic activity in the region. Products and services produced by MSMEs often use local resources, both raw materials and labour, so the money generated stays in the area. This triggers a multiplier effect on the local economy, where income generated from MSMEs is reused to purchase other products and services in the same community. As such, MSMEs help to create a vibrant and sustainable economic ecosystem, ultimately reducing dependence on imported products and enhancing regional economic independence. (Khambule, 2021).

MSMEs also play an important role in innovation and adaptation to market changes. Because they are often smaller in scale and more flexible, MSMEs can more quickly adapt to local market needs and consumer trends. They are able to create products that are more personalised and suited to the specific needs of local consumers, which often cannot be done by larger companies with more bureaucratic and rigid structures. This innovation also includes the utilisation of simple technologies relevant to local conditions, which in turn can improve efficiency and productivity. With this innovative capability, MSMEs not only survive but also thrive in the face of economic challenges, creating new opportunities and advancing the local economy as a whole.

### **Strategies for Empowering MSMEs through Education and Training**

The strategy of empowering MSMEs through education and training is an important step to increase the capacity and capability of MSME actors in running and developing their businesses. One of the key strategies is to provide comprehensive and sustainable training programmes that cover various aspects of business management, ranging from the basics of entrepreneurship, financial management, marketing, to human resource management. These training programmes should be designed to suit the specific needs and challenges faced by MSME actors, so that they can effectively apply the knowledge gained in their daily operations. (Miura et al., 2023)..

Furthermore, it is important to ensure the accessibility and inclusiveness of such education and training programmes. This means that training should be available in various locations, including rural areas that may be difficult to reach. In addition, training should also be delivered in local languages or languages that are easily understood by participants. Technology can also be utilised by providing online training that is flexible and accessible at any time, allowing MSME actors to learn without having to leave their businesses for too long. Governments, educational institutions and non-profit organisations can collaborate to provide these resources for free or at a very affordable cost. (Maulana & Yani, 2024).

Equally important is the involvement of mentors or business assistants who are experienced in the education and training process of MSMEs. Mentors can provide practical guidance and advice based on real-life experiences in running a business. This mentoring programme can take the form of direct assistance or through a digital platform, where MSME players can ask questions and discuss regularly with their mentors. This approach is believed to provide significant added value as it gives MSME players the opportunity to learn and address specific issues they face in a more personalised manner. (Zihan & Rahmawati, 2023)..

Finally, continuous evaluation and improvement of the education and training programme needs to be conducted to ensure its effectiveness. Feedback from trainees should be taken into consideration in developing future curricula and teaching methods. It is not just about measuring improvements in knowledge and skills, but also the tangible impact on MSME performance and growth. It takes commitment from all parties involved to continuously update training materials in line with market developments and the latest technology. With a well-planned strategy of empowerment through education and training, MSME players can become more resilient and competitive, contributing more to the local and national economy.

## **Conclusion**

The strategy of empowering MSMEs to improve the local economy shows that MSMEs have a very important role in driving the economic growth of a region. MSMEs are often a key pillar in job creation and poverty alleviation, by providing opportunities for local labour and creating sustainable sources of income. Therefore, the empowerment of MSMEs not only has an impact on improving the welfare of individual business actors, but also has a broad positive impact on the local economy.

Empowerment strategies identified in the literature include education and training, access to finance, and policy support. Education and training can provide capacity and skills building for MSME actors, so that they are better prepared to face business challenges and can optimise market opportunities. Meanwhile, easier and more flexible access to finance, including through microloans and grant assistance, enables MSMEs to make the necessary investments to grow. In addition, policy support from the government and conducive regulations are also key factors in creating an enabling environment for MSME growth.

Overall, the literature review confirms that a holistic and integrated MSME empowerment strategy is essential to maximise the contribution of MSMEs to the local economy. Collaboration between government, financial institutions, education, and communities is necessary to create an ecosystem that supports the development of MSMEs. With the right strategy and effective implementation, MSMEs can become the driving force of the regional economy, improve local competitiveness, and promote inclusive and sustainable economic development.

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