



The role of micro, small and medium enterprises (MSMEs) towards community welfare in Medan City

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Abstract: In pursuit of a prosperous life, individuals possessing the capacity to create business opportunities often play a pivotal role in meeting the fundamental needs of their communities. One of the prominent channels through which such endeavours manifest is the establishment and operation of Micro, Small, and Medium Enterprises (MSMEs). This research is dedicated to comprehensively examining the profound impact of MSMEs on the community's welfare. Employing a descriptive qualitative approach, the study was conducted within the MSME sector of Medan City. The outcomes of this study underscore the profoundly positive influence of MSMEs on various facets of the community's well-being, including healthcare, education, income levels, housing conditions, and access to communication technology. The results affirm the crucial role of MSMEs in fostering economic growth and elevating the quality of life for the residents of Medan. This research sheds light on the multifaceted contributions of MSMEs to enhancing community welfare, demonstrating their significance as agents of positive change in pursuing a prosperous society.

Keywords: MSMEs, prosperous, community, community welfare



1. Introduction

Economic activity is an effort that can increase citizens' power and standard of living because, with continued economic development, the needs of citizens will also be fulfilled (Cynthia et al., 2014). To meet the needs of residents, jobs are needed that can accommodate every available resource. Indonesia, a country full of natural wealth, has been unable to optimize existing capabilities (Kuncoro, 2013). Residents must be able to improve further their skills or abilities or those located in their respective areas to meet their needs.

In order to fulfil the necessities of life to be prosperous, residents who have the expertise carefully look at their abilities and can identify areas that can create opportunities and open up business opportunities for residents (Mulyani & Mudiantono, 2015). With this business opportunity, it is hoped that it can help the economic development of the surrounding residents to reduce the significant level of urbanization (Son, 2018). Also, with a business that focuses on opportunities in the nearest area, it is hoped that it can become an icon or distinctive characteristic of the area. Residents have the urge to be able to act to realize the idealized situation. The action is basically a phase of change leading to a situation that continues to prosper, called the process of developing citizens. Thus, it is said that community development is a mission carried out by citizens to realize their vision. Concerning welfare as a citizen's vision, Micro, Small, and Medium Enterprises (MSMEs) are national economic areas that are very strategic and relate to the interests of everyone's life so that they become the foundation of the country's economy. MSMEs in Indonesia have a significant position, especially in creating job opportunities (Kuncoro, 2013). This is based on the reality that the total number of workers in Indonesia is very large because of the large population so that Big Enterprises (UB) are not able to absorb all job seekers, and the inability of large businesses to generate wide job opportunities is due to the fact that business groups are usually relatively capital intensive, on the contrary. SMEs are relatively labor intensive (Kartawinata et al., 2020).

MSMEs are essential as a potential industry and maintain economic stability (Merdekawati, 2019). Considering that Small and Medium Enterprises have a significant involvement in the workforce and increase the welfare of citizens, it is necessary to carry out research related to MSMEs in Medan City. The most visible impact of MSMEs is employment, which can help improve the local economy because the nature of work in this sector does not require as many provisions as in large industries. The existence of MSMEs should be expected to play a reasonably good role in the welfare of citizens, especially in efforts to overcome conflicts often experienced, such as rising poverty levels, high unemployment, inequality in income distribution and all bad influences (Eriza, 2019). The role of MSMEs in Indonesia, which the government relates, should be able to reduce the unemployment rate, which continues to increase every year, overcome poverty by helping people who cannot afford it and equal distribution of income that can change the lives of people who have financial limitations (Rosmadi, 2019). Micro, Small and Medium Enterprises or MSMEs are the basis of the people's economy; their role is significant in the economic development of the State of Indonesia, especially in facing the demographic bonus phase because this business will open up job opportunities, play a role in the process of equity and increase people's income, encourage economic growth, and play a role in realizing the stability of the country (Arsyad, 2012). Various economic crises that occurred, MSMEs were still able to survive, with the advantages they had when the crisis hit, the characteristics that made MSMEs resistant to shocks compared to large businesses, namely: (1) Huge number of companies (2) MSMEs using technology that more suitable than the sophisticated technology used by large companies, (3) many MSMEs are overgrowing (4) MSMEs can be a starting point for savings/investment mobilization in rural areas (5) MSME entrepreneurs finance most of their business operations with personal savings or loans from relatives and relatives. (6) many MSMEs can increase their productivity through investment and technological change. (7) the level of flexibility of MSMEs is relatively high against big business competition (Suyadi et al., 2018; Wika Undari, Anggia Sari Lubis, 2021). Kuncoro stated that MSMEs were proven to resist the crisis and could survive because they did not have foreign debt, did not owe much to banks because they were considered unbankable, used local inputs and were export-oriented. According to (Nursidi & Wulandari, 2021; Pasaribu & Oktavia, 2020), the reasons MSMEs can survive and tend to increase in number during times of crisis are: first, most MSMEs use their capital and rarely get capital from banks. The implication during the crisis period was that the downturn in the banking sector and rising interest rates did not affect MSMEs. Second, the prolonged economic crisis caused the formal sector to lay off many workers, so the unemployed entered the informal sector by carrying out small-scale business activities; as a result, the number of MSMEs increased.

Medan City Regional Regulation No. 14 of 2011. concerning the Regional Medium-Term Development Plan (RPJMD) of Medan City, which aims to develop MSMEs which is implemented by the Department of Cooperatives and Micro, Small and Medium Enterprises of Medan City through

work programs every year and is carried out on a quarterly period to develop and empower MSMEs in Medan City, one of the programs that refers to developing MSMEs (Medan, 2021).

The Medan City Cooperative & MSME Service is a role that fits perfectly with one of its missions, namely, increasing the competitiveness of Cooperatives and Small and Medium Enterprises (MSMEs) ([BPS] Central Bureau of Statistics, 2021). Increasing the competitiveness of MSMEs and the sustainability of MSME businesses are programs that must be implemented by the Medan City Cooperatives & MSMEs Office, coupled with the increasing number of MSMEs in Medan City, which is becoming a challenge for the Medan City Cooperatives & MSMEs Office. The following is the number of MSMEs in Medan City in 2020; it will be shown that the number of MSMEs in Medan City 2020 is 202.85 units of Micro, 23,382 Small Business units, 7,706 Medium Enterprises, 233.939 units of MSMEs. Data Recapitulation of the Number of SMEs in Medan City 2019 Number of SMEs Percentage (%), namely the Business Sector 61 units, the Production Sector 41 units, and the Service Sector 22 units for a total of 124 units. Research conducted by Merdekawati (2019) titled "Ability between the contribution of MSMEs to the Welfare of Citizens in the Islamic Economic Perspective". This research uses a qualitative method and a descriptive analysis approach. This research shows that the presence of MSMEs in Jalan Damai RT 03 LK II, Village of Peace, District of Peace, can grow. A significant contribution to the welfare of the residents and increase the income of the closest residents so that they can meet their daily needs. This tofu business has completed the session of creating and fulfilling the appropriate income stipulated in Islam so that it can improve the economic welfare of the community. Based on this, researchers are interested in conducting research titled "The Role of Micro, Small and Medium Enterprises (MSMEs) on Community Welfare in Medan City".

2. Theoretical review

2.1. Micro, Small and Medium Enterprises (MSMEs)

In Indonesia, the interpretation of MSMEs is regulated in the Law of the Republic of Indonesia No. 20 of 2008 concerning MSMEs (Saifudin, 2019; Law of the Republic of Indonesia Number 20 Year, 2008). Chapter 1 (General Requirements), Article 1 of the Law states that it is a productive business owned by individuals and/or individual business entities that meet the criteria stipulated in the Law. A small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not industrial subsidiaries or branches of industry that are owned, understood, or become part of either directly or indirectly from Medium Enterprises or Large Enterprises that meet the Business criteria. Small as defined in the Act. On the other hand, Medium Enterprises are productive economic enterprises that stand alone. Government Regulation No. 7 of 2021 concerning Ease, Protection, and Empowerment of Cooperatives and Micro, Small and Medium Enterprises (Government Regulation on MSMEs) has been issued by the government along with 48 other implementing regulations from Law no. 11 of 2020 concerning Job Creation (Law on Job Creation) on 16 February 2021 (Law, 2021). The MSME Government Regulation changes several provisions previously regulated in Law no. 20 of 2008 concerning Micro, Small and Medium Enterprises (MSME Law). One of them is the rules related to the criteria for SMEs themselves. The new MSME criteria are regulated in Article 35 to Article 36 of the Government Regulation concerning MSMEs. Based on the article, MSMEs are grouped based on the criteria for working capital or annual sales results. The criteria for working capital are used for the establishment or registration of MSME activities which were established after a Government Regulation stating that MSMEs apply. The capital criteria consist of:

- a. Micro Business has a business capital of up to a maximum of Rp. 1,000,000,000.00 (one billion rupiah), excluding land and buildings where the business is located.
- b. Small Business has a business capital of more than Rp. 100,000,000.00 (one billion rupiah) up to a maximum of Rp. 5,000,000,000.00 (five billion rupiah), excluding land and buildings where the business is located.
- c. Medium Enterprises have a business capital of more than IDR 5,000,000,000.00 (five billion rupiahs) up to a maximum of IDR 10,000,000,000.00 (ten billion rupiahs), excluding land and buildings for business premises.

As for MSMEs established before the Government Regulation on MSMEs came into effect, the grouping of MSMEs was based on the annual sales results criteria. The criteria for annual sales results consist of the following:

- a. Micro Enterprises have annual sales of up to a maximum of Rp. 2,000,000,000.00 (two billion rupiah)
- b. Small Business has annual sales of more than Rp. 2,000,000,000.00 (two billion rupiah) up to a maximum of Rp. 15,000,000,000.00 (fifteen billion rupiah)
- c. Medium Enterprises have annual sales of more than Rp. 15,000,000,000.00 (fifteen billion rupiahs) up to a maximum of Rp. 50,000,000,000.00 (fifty billion rupiahs).

Economic developments can change the nominal value of the above criteria. In addition to the criteria for working capital and annual sales results, ministries/state institutions may use other criteria such as turnover, net worth, investment value, number of workers, incentives and disincentives, local content, and/or application of environmentally friendly technology by the criteria for each business sector. For particular interests (Article 36 of the Government Regulation concerning MSMEs).

2.2. Public welfare

(Rosmadi, 2019) Community welfare consists of 2 words, namely welfare and society. Based on the Big Indonesian Dictionary, the interpretation of prosperous is comfortable, peaceful, and prosperous, safe (despite all the various obstacles). On the other hand, to prosper is to make prosperous, save (secure and prosper). (Rahmatia et al., 2018) After that, what is meant by welfare is a matter of condition of prosperity, security, safety, and peace. According to the Big Indonesian Dictionary, the interpretation of society is a group of people who live together in a place or area with specific provisions. Law Number 11 of 2009 concerning social welfare states that the condition of meeting the material, religious and social needs of the community so that they can live properly and be able to improve themselves and carry out social functions. In a vast sense, social welfare includes various actions that humans try to achieve a better standard of living. This better living standard is measured not only by economic and physical aspects, but also by observing social and mental and spiritual aspects of life. Based on the law, we can examine if the dimensions of the level of welfare can be seen from the expertise of a person or group in their efforts to meet their material and religious needs. We can associate material needs with income which in the future will realize the needs of food, clothing, shelter and health. After those spiritual needs related to learning, security and peaceful life.

2.3. Community welfare indicator

To review the level of welfare of citizens in a particular position, the Central Statistics Agency (BPS) carries out the National Socio-Economic Survey (Susenas). Susenas takes data on the economic conditions of the residents below to get welfare indicators ([BPS] Central Bureau of Statistics, 2021). The markers of people's welfare for the Central Statistics Agency are as follows ([BPS] Central Bureau of Statistics, 2021):

1. Health: health level is the leading indicator that can describe the quality of human development in an area. The healthier the condition of a citizen, so that it continues to support the process and dynamics of the economic development of a country/region, which continues to be good, especially in increasing productivity.
2. Education: education is the foundation of professional quality human resources. With good learning, the next generation will be intelligent and competent. Therefore, education is also one aspect that means the authority of a country in the eyes of abroad. Employment labour is the first step in the movement of the wheel of development. The state of the number and manner of labour will continue to change along with the ongoing demographic process.
3. Housing and the environment is a basic need for humans to live in the presence of a house. Adequate housing conditions can support economic development efforts because people's welfare can be realised with a good quality of life by achieving housing needs.
4. Access to information technology is no less attractive in recognizing how far people's welfare has grown by looking at the ability or possession of access to data and communication technology, such as using smartphones (HP) and computers and laptops as facilities to support learning and improve business.

2.4. Patterns / efforts to improve welfare

A pattern is a form or model that can be used to make or create something or part of something, especially if the resulting object has enough of something similar to the visible or visible bottom pattern, in which case something is said to exhibit a pattern. In the Big Indonesian Dictionary, patterns are also pronounced as systems or work methods. Community development is a process of change leading to a state of life that continues to be prosperous. The process of community development requires a prolonged increase in the capacity of residents. The process and efforts to change towards a situation that continues to be prosperous is a reality that is always found in people's lives. In order to master this fact, studies have been tried that have given birth to various perspectives,

2.5. The impact of MSMEs on community welfare

The impact can briefly be interpreted as a change due to an activity (Aris Wahyu Kuncoro & Rahardjo, 2013). These activities can be natural, whether social, economic, physical, chemical or biological. According to the Big Indonesian Dictionary, impact is a collision, an influence that has either positive or negative consequences (Ministry of Education and Culture of the Republic of Indonesia, 2016). The existence of the MSME industry positively impacts the surrounding residents, which can have a direct and indirect impact (Son, 2018). Direct impact, meaning the welfare of workers in the industry, which is determined by the following factors: reward and reward system; income level; employee selection and development system (including the transfer system and promotion/career promotion); system of benefits/social security/pension; further training/learning programs; workers' rights to unionize; employee health services and other internal services that benefit employees; work design, area and safety; employee social facilities (such as places of worship and rest); as well as social activities/outings of employees and their families (Wika Undari, Anggia Sari Lubis, 2021). These factors are part of the internal management of the industry (Pasaribu & Oktavia, 2020; Rosmadi, 2019). If all these aspects are adequately tested, the result is employee satisfaction, which positively impacts productivity and employee retention, increasing the added value of the products produced by the industry (employees) concerned (Suyadi et al., 2018).

3. Research methods

This research was carried out using a qualitative approach that uses process analysis and inductive thinking related to the dynamics of the bond between the phenomena studied and still uses scientific logic. This research uses a descriptive method (Sugiyono, 2017; Zed, 2008). Descriptive research is the method used to identify the value of individual variables, both one or more (independent), without comparing or relating to other variables. This research was carried out in Medan (Zed, 2008). because this place is the welfare of the surrounding community with the existence of MSMEs, this study focuses on how the existence of MSMEs impacts the welfare of the community. Data collection was carried out in several ways, namely by interview. This study conducted interviews with traders or workers in MSMEs around the city of Medan. Then, make field observations or observations to get precise data about the state of the object of study, namely by visiting the MSME area around the city of Medan. Data analysis in research takes place simultaneously with the data collection process. Among them are through data selection, namely focusing on all the data obtained, presenting data at the data collection stage for analysis, and finally drawing conclusions at the stage of concluding the relevant issues discussed using language that is described and has a broad meaning.

4. Results and discussion

4.1. The impact of MSMEs on community welfare

In the theoretical study, it has been explained that several indicators state the community's welfare, namely health, education, income, housing and information and communication technology. If this has been achieved in a person, it can be said that the person is already prosperous. The following is the result of the indicator data obtained from the impact of MSMEs on the welfare of the people in Medan.

1. Health

The results of interviews with MSME actors or workers found that when they were sick, they could go to the puskesmas or hospital for treatment. So they can fulfil their health condition, if they are sick, they can seek treatment at the puskesmas or hospital.

2. Education

Education is a basic need in welfare because, with education, their families are raised in rank. From the results of interviews with business owners, their education only reaches elementary or junior high school, but after they start their MSME business, they can afford education by sending their children to college.

3. Income

Income from SMEs is the primary income for entrepreneurs and workers. They save part of their income for savings when there is a sudden need. After that, if their income can meet their primary or basic needs, they can buy secondary or tertiary needs from their remaining income.

4. Housing area

Based on interviews and observations, the owners of MSMEs experienced a change in their place of residence. With the business we have established, we have built a decent and comfortable place to live with our family. They are starting from houses with walls and ceramics and are already on the fence and equipped with proper furniture. However, workers in MSMEs are only suitable for use in housing but not too luxurious for the facilities like other business owners.

5. Technology and Communication

Based on interviews and observations regarding technology and communication, business owners and workers are competent and can be fulfilled in communication, such as buying cell phones. Mobile phones are also a significant need in communication and facilitating their business, so it is said to be feasible.

Table 1: Mapping results from interviews with culinary MSME actors in Medan City

No	Indicator	Year	Criteria	Information
1	Health	2019	Enough	The surrounding community is easy enough to get to the clinic take advantage of existing facilities in the district of Padang Tualang, namely puskesmas or RSTS, which are used to fulfil health.
		2020	Enough	
		2021	Easy	
2	Education	2019	High school equivalent	From the interview results, the informant's child stated that his education was increasing until he could go to college, and had fulfilled the 9-year school requirement from the government.
		2020	High school equivalent	
		2021	College Tall	
3	Income	2019	Currently	The of the community, especially the owner, has experienced an increase of up to 50% per day, while employees also experienced an initial increase of 20000 per day up to 35000-40000 thousand per day.
		2020	Currently	
		2021	Tall	
4	Housing (quality of housing facilities)	2019	Not enough	In 2019 and 2020, housing facilities are still not sufficient because there are still many other needs that must be met. Until 2021, there will be a gradual increase in the house so that the house is ceramic and has a TV, refrigerator etc.
		2020	Enough	
		2021	Complete	
5	Information Technology and communication	2019	Enough	People already have relatively easy access to smartphones, and now, an increasingly sophisticated era requires access to technology.
		2020	Easy	
		2021	Easy	

4.2. Efforts of MSMEs in Medan City towards community welfare

Upon conducting interviews and observations with MSME entrepreneurs, it is evident that they actively contribute to enhancing the community's well-being. Their efforts to uplift the community can be categorized into three distinct approaches.

First and foremost, these entrepreneurs prioritize hiring recent high school graduates, thereby providing employment opportunities for young individuals who may not pursue higher education. This approach not only facilitates the reduction of youth unemployment but also empowers teenagers to engage in productive work, allowing them to earn a steady income.

Secondly, MSMEs extend opportunities to homemakers seeking additional income by offering part-time or occasional employment in their stalls. This flexible arrangement has a tangible impact on augmenting household incomes providing financial relief to families.

Lastly, MSMEs often leverage the kinship system, favouring the employment of close family members. This practice simplifies the job-seeking process for individuals within the family network and underscores the entrepreneurs' commitment to prioritizing the well-being of their nearest relatives.

In light of these three commendable efforts by MSMEs, it is anticipated that they will significantly contribute to the overall welfare improvement of the residents in Medan. These initiatives not only foster employment and income generation but also strengthen the community's social fabric, highlighting the pivotal role of MSMEs in promoting local prosperity.

5. Conclusion

In light of the findings discussed in this study, it is evident that Micro, Small, and Medium Enterprises (MSMEs) substantially impact the community in Medan. MSMEs contribute to an increased income, enabling individuals to meet their fundamental needs, including healthcare, education, and housing improvements. Furthermore, the growing accessibility of smartphone technology allows for enhanced connectivity and convenience in the modern world.

Once primary needs are met, individuals can transition to addressing secondary needs, such as acquiring personal vehicles. MSMEs in the city of Medan actively play a role in enhancing community welfare by reducing youth unemployment through employment opportunities at local stalls. Additionally, these enterprises empower homemakers to augment their income, ultimately prioritizing employment for relatives to bolster the well-being of their immediate family.

Based on the conclusions derived from this study, we recommend that MSMEs prioritize the development of robust marketing strategies to boost sales. They must remain vigilant regarding the competitive landscape, ensuring proactive adaptation to prevent adverse outcomes such as financial losses or bankruptcy. If such challenges arise, it is imperative to have well-prepared contingency plans for effective problem resolution.

In summary, this study underscores the positive influence of MSMEs on the community of Medan, highlighting their potential to drive economic growth and improve the quality of life for residents. By staying attuned to market dynamics and implementing effective marketing strategies, these enterprises can safeguard their own sustainability and continue to be catalysts for social and economic progress in the region.

Declarations

Ethics approval and consent to participate

Not applicable.

Consent for publication

Not applicable.

Availability of data and material

The data are available on request.

Competing interests

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