

THE STRATEGIC ROLE OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN POVERTY REDUCTION AMONG RURAL COMMUNITIES

Sitti Hasbiah*

Universitas Negeri Makassar

E-mail: *sitti.hasbiah@unm.ac.id

Submitted:
16 January 2026

Revised:
27 February 2026

Accepted:
30 March 2026

Abstract

The problem of poverty is still the main challenge for development in rural areas of Indonesia. Limited employment opportunities and low access to productive economic activities cause some village communities to be economically vulnerable. One of the sectors that is considered to have great potential in reducing poverty levels is Micro, Small, and Medium Enterprises (MSMEs). This article aims to conceptually examine the role of MSMEs in efforts to reduce poverty in rural communities by taking the context of Bantaeng Regency. The writing method uses a qualitative-descriptive approach through literature studies of scientific journals, reference books, and relevant official government documents published in the last five years. The results of the study show that MSMEs play a role as a driver of the local economy through the creation of job opportunities, increasing household income, and strengthening the economic independence of communities based on local potential. However, the development of MSMEs in rural areas is still faced with various structural obstacles, such as limited capital, low managerial capacity of business actors, and limited market access. Therefore, policy support and cross-stakeholder synergy are needed to optimize the role of MSMEs as an instrument to reduce poverty in rural areas.

Keywords: MSMEs, Poverty, Rural Economy, Community Empowerment.

1. INTRODUCTION

Poverty is a multidimensional socio-economic phenomenon and remains one of the central issues in rural development. In Indonesia, poverty in rural communities is not only related to low income, but also to limited access to productive employment, low diversification of economic activities, weak market access, and unequal opportunities to participate in the formal economy. Recent empirical evidence shows that rural poverty reduction in Indonesia is strongly associated with rural transformation, particularly through the expansion of high-value agriculture and rural non-farm employment. This indicates that poverty alleviation strategies need to move beyond direct assistance and should strengthen productive economic activities at the village level (Sudaryanto et al., 2023).

In this context, Micro, Small, and Medium Enterprises (MSMEs) have a strategic role as an instrument of rural economic empowerment. MSMEs are generally labor-intensive, locally embedded, and adaptable to community resources, making them relevant for rural communities with limited access to formal employment. Tambunan (2023)

emphasizes that MSMEs are important for poverty alleviation in Indonesia because they expand employment opportunities and support income generation for low-income groups. Therefore, MSMEs can function not only as business entities, but also as a socio-economic mechanism for improving household resilience in rural areas.

The role of MSMEs in reducing poverty is also closely related to their ability to create alternative sources of livelihood outside the agricultural sector. Rural households often depend on seasonal agricultural income, which makes them vulnerable to income instability. The development of MSMEs, particularly those based on agricultural processing, small trade, food production, household industries, and local commodities, can increase non-farm employment and strengthen rural income diversification. This argument is in line with Sudaryanto et al. (2023), who found that rural non-farm employment is positively associated with rural household income growth and lower poverty rates in Indonesia.

However, the contribution of MSMEs to poverty reduction does not occur automatically. MSME performance is influenced by human capital, business experience, production technology, empowerment programs, and the number of workers involved in business activities. Suminah et al. (2022) found that several factors, including human capital, empowerment, production technology, and business characteristics, significantly affect the income of MSME actors. This suggests that strengthening MSMEs as a poverty reduction strategy requires not only increasing the number of businesses, but also improving the quality, productivity, and competitiveness of MSME actors.

Another important aspect is the spatial and infrastructural condition of MSME development. Widita et al. (2024) explain that the spatial distribution of MSMEs in Indonesia is influenced by infrastructure, digital connectivity, employment accessibility, and local planning mechanisms. This finding is relevant for rural communities because MSMEs located in areas with weak infrastructure and limited market connectivity may face greater barriers to growth. Therefore, poverty reduction through MSMEs requires a supportive ecosystem, including access to roads, digital networks, markets, financial services, and local institutional support.

Digital transformation has also become an important factor in strengthening MSME sustainability. Patma et al. (2021) found that internet and e-business technology adoption is linked to social media marketing and SME sustainability in Indonesia. Similarly, rural e-commerce studies show that digital platforms can reduce rural poverty vulnerability by expanding market access and encouraging off-farm entrepreneurial activities. Although this evidence comes from the rural Chinese context, it provides a useful comparative perspective for developing countries that seek to integrate rural MSMEs into wider digital markets (Tang et al., 2024).

In addition, local institutional support is necessary to ensure that MSMEs can contribute to sustainable rural development. Hilmawan et al. (2023) show that village funds and village original income play important roles in improving rural development in Indonesia, although the contribution of village-owned enterprises still requires stronger management and policy evaluation. This implies that MSME development should be integrated with village-level economic institutions, local government programs, and community-based development planning.

Based on this background, a conceptual study on the role of MSMEs in reducing poverty in rural communities is important to conduct. This article seeks to examine how

MSMEs contribute to poverty reduction through employment creation, income diversification, local resource utilization, digital market access, and rural economic empowerment. Academically, this study is expected to enrich the discussion on MSMEs and rural poverty alleviation. Practically, it can provide policy insights for strengthening MSMEs as a community-based economic development strategy that supports sustainable poverty reduction in rural areas.

2. LITERATURE REVIEW

2.1 The Concept of Poverty

Poverty can be understood as a multidimensional condition in which individuals or households are unable to achieve a decent standard of living due to limited income, restricted access to basic services, weak productive capacity, and limited participation in economic opportunities. In contemporary poverty studies, poverty is no longer viewed solely as a lack of income, but also as a condition involving limited access to education, employment, social protection, productive assets, and community resources. Hakim et al. (2025) emphasize that rural poverty in Indonesia needs to be understood through a multidimensional approach because income-based measurement alone is insufficient to explain the complexity of poverty experienced by rural households.

In rural areas, poverty is generally associated with low labor productivity, dependence on seasonal agricultural activities, limited access to markets, and weak economic diversification. Rural households that rely only on agriculture are often vulnerable to income instability, especially when agricultural production is affected by price fluctuations, climate conditions, or limited access to capital. Therefore, poverty reduction in rural communities requires not only social protection, but also productive economic strategies that can expand income sources and strengthen household economic resilience.

Recent studies on rural poverty in Indonesia also show that the accuracy of poverty identification and intervention remains an important issue. Hakim et al. (2025) found that rural poverty cannot be effectively addressed if poverty classification and social assistance targeting are inaccurate. This indicates that poverty reduction efforts should be supported by more precise understanding of household vulnerability, local economic conditions, and access to livelihood opportunities.

2.2 Micro, Small, and Medium Enterprises (MSMEs)

Micro, Small, and Medium Enterprises (MSMEs) are productive economic units operated by individuals, households, or business groups within a certain scale of assets, income, and business capacity. In the Indonesian context, MSMEs are commonly defined based on the legal classification contained in Law Number 20 of 2008; however, recent academic studies emphasize that the definition and criteria of MSMEs need to be clear, consistent, and unambiguous so that empowerment programs and policy support can be properly targeted. Santoso and Darmasetiawan (2022) argue that the classification of MSMEs is important because it determines access to government support, financing, training, and business development programs.

MSMEs have an important role in economic development because they are closely related to employment creation, income generation, and community-based economic

activity. Unlike large enterprises, MSMEs are generally more flexible, locally embedded, and easier to establish with limited capital. This characteristic makes MSMEs particularly relevant in rural areas, where formal employment opportunities are often limited and many households depend on small-scale productive activities to support their livelihoods.

The sustainability of MSMEs is influenced by several factors, including business experience, labor capacity, technology use, access to capital, empowerment programs, and market opportunities. Suminah et al. (2022) found that production technology, type of business, and labor involvement significantly affect the income of MSME actors. This finding shows that MSME development should not only focus on increasing the number of business units, but also on improving business productivity, managerial capacity, and access to appropriate technology.

2.3 The Role of MSMEs in Poverty Reduction

Conceptually, MSMEs are viewed as an important instrument in poverty reduction because they provide employment opportunities, create alternative sources of income, and support community economic empowerment. For low-income households, MSMEs can become an accessible economic activity because they do not always require large capital, advanced technology, or high formal education. Tambunan (2023) explains that MSMEs are important for poverty alleviation in Indonesia because they can absorb labor and support income generation among lower-income groups.

The role of MSMEs in poverty reduction can be seen through several mechanisms. First, MSMEs create employment opportunities for rural communities, especially for groups that are less likely to be absorbed into the formal sector. Second, MSMEs increase household income by enabling families to develop small businesses based on local resources, such as agricultural products, food processing, handicrafts, small trade, and household industries. Third, MSMEs encourage local economic circulation because production, labor, and consumption activities often occur within the same community.

MSMEs also contribute to poverty reduction through financial inclusion. Access to microfinance, business credit, and appropriate financing schemes can improve MSME income and competitiveness. Wirawan (2024) found that People's Business Credit or *Kredit Usaha Rakyat* significantly improves MSME income across various sectors, while the impact of other financing sources varies depending on business characteristics and sectoral needs. This indicates that access to finance is an important factor in strengthening the contribution of MSMEs to poverty alleviation.

However, the contribution of MSMEs to poverty reduction does not occur automatically. MSMEs need a supportive ecosystem, including access to capital, training, technology, market networks, product innovation, and institutional support. Without these supporting factors, MSMEs may remain informal, low-productivity, and unable to generate sufficient income for long-term poverty reduction. Therefore, MSME-based poverty alleviation should be designed as an integrated rural economic empowerment strategy, not merely as the growth of small business units.

3. RESEARCH METHODS

This study employed a qualitative descriptive approach using a literature review method. This approach was selected because the study aims to conceptually examine the role of Micro, Small, and Medium Enterprises (MSMEs) in reducing poverty among rural communities. The analysis was conducted by reviewing, comparing, and synthesizing relevant findings from previous scholarly works.

The data used in this study were secondary data obtained from reputable national and international journal articles published within the last five years. The literature was selected based on its relevance to the main themes of this study, including MSMEs, poverty reduction, rural economic development, community empowerment, income generation, employment creation, and sustainable livelihood strategies. The use of recent scholarly literature was intended to ensure that the discussion reflects current academic debates and empirical findings.

The data collection process was carried out through systematic searching in scientific publication databases such as Google Scholar, ScienceDirect, SpringerLink, Emerald Insight, Taylor & Francis, and other reputable journal platforms. The keywords used in the search process included “MSMEs and poverty reduction,” “micro small and medium enterprises,” “rural poverty alleviation,” “rural economic empowerment,” “MSMEs and household income,” and “MSMEs in rural development.” Articles were selected by considering their relevance, publication year, academic quality, and contribution to the research topic.

Data analysis was conducted through several stages. First, relevant literature was identified and classified based on the main issues discussed. Second, the findings from previous studies were grouped into key themes, such as the role of MSMEs in employment creation, income improvement, local resource utilization, market access, and rural community empowerment. Third, the data were synthesized to identify patterns, similarities, differences, and conceptual relationships among the studies. Finally, interpretation was carried out to formulate a comprehensive conceptual explanation of how MSMEs contribute to poverty reduction in rural communities.

Through this method, the study is expected to provide a systematic academic understanding of the strategic role of MSMEs in poverty alleviation. The results of the literature synthesis are also expected to serve as a conceptual basis for strengthening MSME-based rural economic development policies.

4. RESULTS AND DISCUSSION

Results

Based on the literature review, the role of Micro, Small, and Medium Enterprises (MSMEs) in reducing poverty in rural communities can be grouped into several main

findings: employment creation, household income improvement, local economic diversification, digital market expansion, and institutional support for rural economic empowerment.

First, MSMEs contribute to poverty reduction by creating employment opportunities for rural communities. In rural areas, formal employment opportunities are often limited, while many households depend on agriculture and informal economic activities. MSMEs provide accessible employment because they generally require relatively small capital, simple technology, and local labor. This finding is consistent with studies showing that rural transformation and the growth of non-farm employment are associated with increased household income and lower poverty incidence in Indonesia.

Second, MSMEs play an important role in increasing household income. MSME activities such as food processing, small trade, household industries, handicrafts, and agricultural product processing can provide additional income for rural households. The study by Suminah et al. found that MSME income is influenced by several factors, including human capital, business experience, empowerment, number of workers, business capital, type of business, and production technology. This indicates that MSMEs can support poverty reduction when business actors have sufficient capacity, access to resources, and productive support.

Third, MSMEs encourage rural economic diversification. Rural poverty is often related to dependence on agriculture, especially seasonal agricultural income. MSMEs can reduce this dependency by creating non-agricultural and semi-agricultural economic activities. For example, agricultural products can be processed into higher-value products, while household industries and small trade can expand income sources outside farming activities. Therefore, MSMEs function not only as individual business units, but also as part of the rural economic structure that strengthens household resilience.

Fourth, digitalization has become an important factor in strengthening MSMEs. The adoption of internet technology, social media marketing, and e-business practices can improve MSME sustainability by expanding market access and strengthening business competitiveness. Patma et al. found that technology adoption and social media marketing are related to the sustainability of Indonesian SMEs, especially in adapting to changing market conditions. In a broader rural context, e-commerce development has also been shown to reduce rural household poverty vulnerability by expanding economic opportunities and market access.

Fifth, the development of MSMEs is strongly influenced by infrastructure, spatial conditions, and institutional support. Widita et al. found that MSME distribution in Indonesia is affected by infrastructure, digital connectivity, employment accessibility, and local planning mechanisms. This means that rural MSMEs cannot grow optimally without supporting facilities such as transportation access, digital networks, markets, and local government support. In addition, Hilmawan et al. found that village funds have a positive

impact on rural development, although the role of village-owned enterprises still requires stronger management and policy evaluation

Discussion

MSMEs have an important role in encouraging poverty reduction in rural areas through various economic mechanisms. One of the main contributions of MSMEs is the creation of job opportunities for local communities, which can directly reduce the unemployment rate and increase household income. In addition, MSMEs also function as a means of economic empowerment of the community by encouraging business independence and the use of local resources.

In the context of Bantaeng Regency, MSMEs based on local potential, such as processing agricultural products and household businesses, provide alternative livelihoods for the community. However, optimizing the role of MSMEs still faces a number of challenges, including limited capital, low managerial skills, and limited access to markets and technology. Therefore, the active role of the government and supporting institutions is needed in the form of coaching, capital facilitation, and expanding market access to strengthen the sustainability of MSMEs.

5. CONCLUSION

Based on the results of the literature review, it can be concluded that MSMEs have a strategic role in efforts to reduce poverty in rural communities. This role is reflected in the creation of job opportunities, increasing household income, and strengthening the economic independence of communities based on local potential. Nevertheless, the development of MSMEs is still faced with various structural obstacles that require policy support and synergy between stakeholders. With the right support, MSMEs have the potential to become effective instruments in realizing inclusive and sustainable rural economic development.

REFERENCE

- Hakim, L., Kolopaking, L. M., Sjaf, S., & Kinseng, R. A. (2025). Understanding poverty and social assistance distribution: A multidimensional approach to rural poverty in Indonesia. *AGRARIS: Journal of Agribusiness and Rural Development Research*, 11(2), 255–275. DOI: 10.18196/agraris.v11i2.725.
- Hilmawan, R., Aprianti, Y., Vo, D. T. H., Yudaruddin, R., Bintoro, R. F. A., Fitrianto, Y., & Wahyuningsih, N. (2023). Rural development from village funds, village-owned enterprises, and village original income. *Journal of Open Innovation: Technology, Market, and Complexity*, 9, 100159. DOI: 10.1016/j.joitmc.2023.100159.
- Patma, T. S., Wardana, L. W., Wibowo, A., Narmaditya, B. S., & Akbarina, F. (2021). The impact of social media marketing for Indonesian SMEs sustainability: Lesson from Covid-19 pandemic. *Cogent Business & Management*, 8(1), 1953679. DOI: 10.1080/23311975.2021.1953679.
- Santoso, H. W., Darmasetiawan, N. K., Levina, P., Astanto, T. J., Ajiedragono, F., & Lim, R. (2022). Definition and criteria of MSME in Indonesia: Does it have ambiguous interpretations? In *Proceedings of the 2nd Law CMU International Conference 2022: Dynamic of Laws Amidst the Crisis and Its Aftermath* (pp. 42–50).
- Sudaryanto, T., Erwidodo, Dermoredjo, S. K., Purba, H. J., Rachmawati, R. R., & Irawan, A. R. (2023). Regional rural transformation and its association with household income and poverty incidence in Indonesia in the last two decades. *Journal of Integrative Agriculture*, 22(12), 3596–3609. DOI: 10.1016/j.jia.2023.11.029.
- Suminah, S., Suwanto, S., Sugihardjo, S., Anantanyu, S., & Padmaningrum, D. (2022). Determinants of micro, small, and medium-scale enterprise performers' income during the Covid-19 pandemic era. *Heliyon*, 8, e09875. DOI: 10.1016/j.heliyon.2022.e09875.
- Tambunan, T. T. H. (2023). The importance of MSMEs for poverty alleviation: A story from Indonesia. *International Journal of Current Science Research and Review*, 6(10), 6826–6839. DOI: 10.47191/ijcsrr/V6-i10-36.
- Tang, L., Chen, M., Tang, Y., & Xiong, Y. (2024). Can e-commerce development alleviate farm household poverty vulnerability: Evidence from rural China. *Cities*, 153, 105297. DOI: 10.1016/j.cities.2024.105297.
- Wirawan, R. (2024). The impact of microfinance on the income of micro, small, and medium enterprises (MSE) in Indonesia: A sectoral analysis. *Wiga: Jurnal Penelitian Ilmu*, 14(2), 274–285. DOI: 10.30741/wiga.v14i2.1379.