

INTER-SECTOR COLLABORATION IN SUPPORTING THE WELFARE OF UMKM: A LITERATURE REVIEW

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Abstract

Inter-sector collaboration has been recognised as a key component in improving the welfare of Micro, Small and Medium Enterprises (MSMEs). The purpose of this literature review is to explore how collaboration between the government, private sector, educational institutions, and communities can contribute to the growth and prosperity of MSMEs. Through a comprehensive analysis, this study identifies that effective collaboration enables MSMEs to overcome various challenges such as limited access to capital, technology, and efficient business management. In addition, the study shows that cross-sectoral cooperation promotes innovation, adaptability and sustainability for MSMEs. Such collaboration also plays a role in strengthening local economic development by creating jobs and promoting equitable income distribution. Based on this literature review, it is concluded that synergy between various sectors is an important catalyst in realising sustainable growth of MSMEs that can contribute significantly to the national economy. This conclusion confirms the importance of an inclusive and integrated collaboration strategy to develop a supportive ecosystem for MSMEs, which in turn will support general welfare and overall economic progress.

Keywords: Inter-sector Collaboration, MSME Prosperity.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have a significant role in the national economy, absorbing a large workforce and contributing to Gross Domestic Product (GDP). Micro, Small, and Medium Enterprises (MSMEs) are an important part of a country's economic structure, acting as the backbone of the economy, especially in developing countries. In accordance with the criteria applicable in many countries, including Indonesia, MSMEs are defined based on aspects such as the amount of capitalisation, annual revenue, or number of employees. (Guilherme, 2022). In general, microenterprises are businesses run by individuals or families with small assets and turnover. Small enterprises are typically larger in scale than microenterprises and employ a limited number of staff or employees, while medium-sized enterprises are larger, with the ability to reach a wider market and more significant resources. MSMEs operate in a variety of sectors, from trade, agriculture, services, to manufacturing, and are an important vehicle for entrepreneurship, innovation, and economic diversification. (YILMAZ, 2021).

MSMEs play a crucial role in the national economy through several important aspects. First, the sector is a very significant source of job creation, enabling a broader

and more equitable distribution of income. Second, MSMEs help in economic stabilisation due to their flexible and adaptive nature to economic changes. Thirdly, MSMEs are often the beginning of innovation and new product development that can increase the competitiveness and strength of domestic industries. (Ntshingila & Plessis-Faurie, 2023).. Through their contribution to Gross Domestic Product (GDP), MSMEs accelerate economic growth and help reduce poverty. In addition, MSMEs also play an important role in regional development and economic equity, reducing the concentration of economic activities in big cities, and promoting economic development in rural areas and disadvantaged regions. Despite their great potential, MSMEs often face barriers to business growth and scalability (Grant et al., 2020).

One of the biggest challenges facing Micro, Small and Medium Enterprises (MSMEs) is access to capital and finance. Many MSME owners experience difficulties in securing credit from conventional financial institutions due to lack of collateral, inadequate credit history, and low administrative capacity. This leaves MSMEs forced to rely on capital from personal savings or loans from family and friends, which are often limited and inadequate for significant business expansion or development. (Shannon, 2020). In addition, a lack of knowledge about financial management means that many MSMEs struggle to plan and manage their finances properly, hindering their ability to survive in the long term and grow (Gefen, 2024). (Gefen, 2024).

MSMEs also face tough competitive challenges from larger companies that have better resources, distribution networks and marketing capacity. In many cases, MSMEs struggle to differentiate their products or services in an already saturated market, which demands more creative and effective innovation and marketing strategies. Another challenge is market expansion and the ability to reach a wider range of consumers, especially in today's digital age. (Marlier, 2022). While the internet offers great opportunities to expand market reach, MSMEs often lack the expertise and resources to make the most of digital technologies, such as digital marketing, e-commerce, and customer relationship management. This makes them less competitive compared to competitors who have realised and harnessed the potential of digital for business growth. (Jang & Valero, 2022)..

While a number of programmes and initiatives have been designed to support MSMEs, there are still gaps in execution and expected outcomes. Collaboration between sectors is often sporadic and unstructured, resulting in a lack of impact on MSME welfare. (Ba et al., 2024).

As such, this study examines how inter-sectoral collaboration can support MSME prosperity and the main barriers that hinder effective inter-sectoral collaboration in the context of MSMEs. By reviewing the existing literature, this study aims to fill the existing knowledge gaps and assist decision-makers and stakeholders in designing better and more coordinated strategies to support MSMEs.

Research Methods

The study in this research uses the literature method. The literature research method is an approach used in collecting, analysing and synthesising data from written sources with the aim of gaining an in-depth understanding of a particular topic. This process involves a systematic search of various types of literature such as books, journal articles, research reports, and relevant electronic documents. This method allows researchers to identify, evaluate, and summarise existing research results to build a strong theoretical base, detect gaps in current knowledge, and steer research questions in new directions. The key to the literature research method lies in the ability to conduct a comprehensive, objective, and critical review of the existing literature, so that the results can serve as a solid foundation for further research. (Sahar, 2008); (Arikunto, 2000); (Fadli, 2021).

Results and Discussion

Inter-sector Collaboration to Support MSME Prosperity

Inter-sectoral collaboration for MSMEs refers to cooperation between micro, small, and medium-sized enterprises and other parties from different sectors, such as the public, private, or non-profit sectors. It combines the labour, knowledge, technology, resources, and networks of multiple entities with the aim to generate synergies that benefit all parties involved. (Lee, 2023). In this context, collaboration can involve a wide range of activities, from joint funding, product development, marketing, to business process innovation. The main goal of collaboration is to support and strengthen MSMEs so that they can compete, develop, and be sustainable in the long term. (Widyaningsih & Widodo, 2023)..

The main objective of intersectoral collaboration for MSMEs is to address the limitations that MSMEs face in various aspects of their business. Such collaboration offers MSMEs access to resources that they may not have on their own, such as greater production capacity, technological expertise, extensive marketing networks, employee training, and regulatory assistance. This objective also includes strengthening MSMEs' capacity to face market competition, improving their bargaining position in the supply chain, and opening up opportunities to enter new markets. By receiving support from various sectors, MSMEs can focus on improving the quality of their products or services, which in turn improves their competitiveness and growth prospects. (Gkeredakis, 2020).

In addition, collaboration between sectors also offers broader socio-economic benefits, such as job creation, increased income for local communities, and contribution to inclusive economic growth. Governments and non-profit organisations often support these collaborative initiatives as a means to achieve national economic development goals, reduce economic inequality, and strengthen less developed sectors of the economy. (Juhila et al., 2021).. As such, cross-sector collaboration can be a catalyst that

helps MSMEs fulfil their vital role as drivers of the economy and innovation, while helping them adapt to new challenges that arise in a changing business environment. (Purnawan et al., 2023).

As a next step in promoting intersectoral collaboration for MSMEs, it is important for all parties involved to identify and capitalise on the synergistic potential that this collaboration can bring. This includes equitable sharing of risks and benefits, development of supportive policies, and improved access to resources and markets. In addition, ensuring that MSMEs have access to information and training on the latest technologies is crucial to ensure they can continue to grow and innovate. The utilisation of digital technology can be a driving factor in the success of this collaboration, enabling MSMEs to reach a wider market, improve efficiency, and develop new products or services. (Maulana et al., 2021).

As such, inter-sectoral collaboration is a key strategy in supporting the growth and sustainability of MSMEs, helping them overcome operational and market challenges, and enhancing their capacity to innovate and compete. Through collaboration, MSMEs can gain access to broader resources, advanced technologies, and extensive market networks, enabling them to increase their scale and competitive capacity. (Kustini & Nur, 2023). In addition, the socio-economic benefits resulting from intersectoral collaboration for MSMEs can have a significant positive impact on local and national economic development, social inclusiveness, and improved quality of life. (Ray-Bennett et al., 2020).. Therefore, encouraging and facilitating intersectoral collaboration should be a priority for policy makers, the business community, and other supporting institutions to create an ecosystem conducive to MSME growth and innovation.

Collaboration Models and Strategies to support MSMEs

One effective collaboration model to support MSMEs is a partnership between the government and the private sector. This model involves initiatives such as subsidies, tax incentives, funding and training programmes designed to enhance the capabilities of MSMEs. The government can play a role in creating supportive policies, while the private sector, including large enterprises, can provide technical resources, market access and industry knowledge. Such initiatives help ensure that MSMEs not only survive market competition but can also grow and thrive. (Al-Masri & Johnson, 2023)..

Another collaboration strategy is horizontal partnership, which is cooperation among MSMEs themselves. This model relies on the principle of mutual benefit where MSMEs can share resources, information, and best practices. This can take forms such as industry groupings or clusters to improve competitiveness, purchasing consortiums to reduce costs, or marketing alliances to expand market reach. Such collaborations

allow MSMEs to capitalise on economies of scale and improve their bargaining position in the market (Suslov et al., 2014). (Suslov et al., 2022)..

The utilisation of digital technology provides a strong foundation for collaboration among MSMEs as well as between MSMEs and other sectors. Digital platforms can facilitate networking among MSMEs, allowing them to share information and opportunities, and access tools and resources that were previously unavailable to them. Digital product development can be the focus of collaboration, allowing MSMEs to jointly innovate and explore new markets. This strategy is particularly relevant in an era of globalisation and digitalisation, where speed and adaptability are key. (McNabb & Swenson, 2021).

Creating an enabling ecosystem is a holistic strategy in supporting collaboration for MSMEs. This includes building adequate infrastructure, improving access to financial services, and developing human resources through education and training. Business incubators, accelerators, and innovation centres are also vital in supporting MSMEs by providing technical assistance, mentorship, and access to investor networks. This ecosystem development involves not only the government and private sector, but also educational institutions, nonprofits, and local communities, to create an environment conducive to MSME growth and innovation. (Kustini & Nur, 2023).

Through the implementation of such collaboration strategies and models, MSMEs can strengthen their capacity, improve competitiveness, and accelerate growth in an increasingly competitive and rapidly changing market environment.

In addition to the aforementioned models, it is important for collaboration in supporting MSMEs to include sustainability and social responsibility aspects. MSMEs should be encouraged to adopt environmentally friendly and ethical business practices. Collaboration can take the form of joint initiatives for the implementation of green technology, the use of sustainable raw materials, or the development of products that have minimal negative impact on the environment. Thus, MSMEs not only develop in economic aspects but also make positive social and environmental contributions. (Sachdev, 2021).

As such, supporting MSMEs through various collaboration models and strategies is key in driving inclusive and sustainable economic growth. Collaboration between the government and the private sector, cooperation between MSMEs, utilisation of digital technology, and the development of a supportive ecosystem all contribute to the positive dynamics of the MSME sector. This success will be optimised if followed by a concern for sustainability and social responsibility. Therefore, an effective collaboration strategy should include a holistic and sustainable approach, which not only focuses on economic benefits but also on human development and environmental preservation.

By applying these collaborative models, MSMEs are expected to achieve greater scale, reach new markets, and improve the quality of their operations and outputs, while providing employment and improving the welfare of the wider community.

Conclusion

Cross-sector collaboration has proven to be an effective approach in supporting the prosperity of Micro, Small and Medium Enterprises (MSMEs). A literature review shows that a combination of forces between the government, private sector, educational institutions, and communities can accelerate the growth of MSMEs through greater access to resources, knowledge, and markets. This co-operation helps reduce barriers that MSMEs often face, such as limited capital, access to technology, and managerial expertise, ensuring they not only survive but thrive in a competitive economy.

The implementation of collaborative practices across sectors also fosters innovation and sustainability in MSMEs. By sharing knowledge, technology and resources, MSMEs are prepared to adapt to changing markets and dynamic consumer preferences. This approach not only benefits MSMEs but also supports the broader local economic development agenda, including job creation and more equitable income distribution.

In conclusion, inter-sectoral collaboration is an important strategy in helping MSMEs achieve prosperity and sustainable growth. By adopting an inclusive and integrated cooperation model, various stakeholders can create an ecosystem conducive to the development of MSMEs. This will not only strengthen local economic pillars but also contribute to a more inclusive and sustainable national economic development.

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