

Micro, Small, and Business Development Model Middle School (MSMEs) in Riau Province

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ABSTRACT

Law of the Republic of Indonesia Number 20 of 2008, has mandated that Micro, Small and Medium Enterprises or abbreviated as UMKM need to be empowered by: a) cultivating a business climate that supports the development of Micro, Small and Medium Enterprises; b) development and fostering of Micro, Small and Medium Enterprises. From the results of the study and analysis of Micro, Small and Medium Enterprises in Riau Province, it can be recommended that an appropriate development model be carried out, including Corporate Social Responsibility (CSR), namely a concern or partnership program carried out by companies with micro, small and medium business groups. In this partnership, the company will act as a foster father by providing assistance and guidance through an empowerment program. Next is the microcredit development program, is a business credit granting program aimed at a community that runs a business to increase income with the hope of achieving a better standard of living. And the next one is the cluster development model. This MSME development model is basically to form an MSME industrial center area. By taking into account the potential of the existing area.

Keywords: Small and Medium Micro Enterprise Development Model, CSR, Micro Credit Development Program, Cluster Development Model

1. Introduction

One of the business activities that are able to expand employment and provide broad economic services to the community, and can play a role in the process of equalizing and increasing people's income, encouraging economic growth, and playing a role in realizing national stability is the Micro, Small and Medium Enterprises group or known as MSMEs. It is one of the main pillars of the national economy that must obtain the main opportunity, support, protection and the widest possible development as a form of partisanship for the people's economic business groups, without ignoring the role of Large Enterprises and State-Owned Enterprises (BUMN).

Generally, MSMEs are classified as marginal businesses, with relatively simple technology, low levels of capital and access to credit, and tend to be oriented towards local markets. Studies conducted in several countries show that MSMEs play a significant role in economic growth, labor absorption through job creation, provision of goods and services at low prices, and overcoming poverty. In addition, MSMEs are also one of the main components in local economic development and are able to empower women in improving the bargaining position of women and families.

The ability of MSMEs to contribute significantly to the economic development of a country, both in developing and advanced countries, has encouraged the United Nations (UN) to designate 2004 as the year of international microfinance. This shows the world organization's partiality and concern for MSMEs by encouraging countries in the world to pay more attention to the empowerment and development of MSMEs by providing various stimulants and facilities in accordance with the needs of certain countries or regions. In line with the UN program, the Indonesian government has set 2022 as the "Year of Indonesian MSMEs" by implementing various instruments and programs to facilitate the empowerment of MSMEs at the national level, while in the regions it is expected to be carried out by local governments.

The History has shown that MSMEs in Indonesia remained in existence and developed when the economic crisis hit the country since 1997, and have even played a role as a buffer and safety valve in encouraging economic growth and providing alternative employment opportunities for formal sector workers affected by the crisis. In addition, MSMEs are economic actors that inter-

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act directly with consumers and are able to reduce issues with a socio-political dimension.

However, despite their role in the national economy, they still face various obstacles and constraints, both internal and external, in terms of production and processing, marketing, human resources, design and technology, capital, and business climate.

To increase opportunities, capabilities, and protection for MSMEs, the government has established various policies on business reserves, funding, and development, but they have not been optimal. This is because these policies have not been able to provide adequate protection, business certainty, and facilities for the empowerment of MSMEs. In relation to this, Law of the Republic of Indonesia No 20/2008 has stated that MSMEs need to be empowered by:

- a. Fostering a business climate that supports the development of Micro, Small, and Medium Enterprises; and
- b. Development and guidance of Micro, Small, and Medium Enterprises.

As an effort to improve the capabilities and institutional role of MSMEs in the national economy, such empowerment needs to be carried out by the Government, Regional Governments, the Business World, and the community in a comprehensive, synergistic, and sustainable manner.

Based on the above background, the study of the Micro, Small and Medium Enterprises Development Model in Riau Province.

2. Literature Review

2.1 Definition of Small and Micro Enterprise (SME)

Based on the Law of the Republic of Indonesia no. 20 of 2008, micro businesses are productive businesses owned by individuals and/or individual business entities that meet business criteria, namely:

- a. Have a maximum net worth of IDR 50,000,000 excluding land and buildings for business premises; or
- b. Have a maximum annual sales of IDR 300,000,000.

Furthermore, small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or not branch companies that are owned, controlled, or become part either directly or indirectly of medium or large businesses that full fill the following requirements: small business criteria, namely:

- a. Have a net worth of more than IDR 50,000,000 up to a maximum of IDR 500,000,000 excluding land and buildings for business premises; or
- b. Have annual sales of more than IDR 300,000,000 up to a maximum of IDR 2,500,000,000.

Meanwhile, medium-sized businesses are productive economic businesses that stand alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, con-

trolled, or become part of either directly or indirectly with small businesses or large businesses with total assets. net or annual sales results with the following criteria:

- a. Have a net worth of more than IDR 500,000,000 up to a maximum of IDR 10,000,000,000 excluding land and buildings for business premises; or
- b. Have annual sales of more than IDR 2,500,000,000 up to a maximum of IDR 50,000,000,000.

2.2 Philosophical Review of Small, and Medium Enterprise (SME)

2.2.1 MSME Empowerment

The process of economic development in a country naturally creates enormous opportunities for all types of economic activity in various business scales. The size of a business depends on a number of factors, the most important of which are the market and technology (HM, G. B. (2022)). If the market served is small, namely for seasonal species, then the business unit that is suitable (viable), in the sense that even though the turnover is small, the business can generate a sizable profit margin, it is a small business (Tambunan, 2020). Efforts to develop the small business sector are an integral part of the entire Indonesian nation-building process. With a strong political will without being followed by the ease of implementing development in the field, it will not produce an advanced small business sector (Kusuma et al., 2022).

Article 33 of the 1945 Constitution mandates that the national economy is based on economic democracy and side with the people. In line with article 33 of the 1945 Constitution, the 2005-2025 National RPJP emphasizes the functioning of economic democracy by increasing the capacity of cooperatives and small and medium enterprises. Empowering small, medium and cooperative entrepreneurs to be more efficient, productive and competitive by creating a conducive business climate and the widest possible business opportunities. According to Martini (2019), the focus of attention in the post-industrial era is an approach towards development that is more pro-people. Pro-people development emphasizes the importance of initiative and local differences. Welfare and human self-realization are at the heart of the concept of development that takes the side of the people. Feelings of self-worth are equally important for achieving a high quality of life.

This is the beginning of the foothold that empowerment for the community is very important (including SMEs), although this according to Lesmana, et al (2022) can be referred to as only a context of solving the problem of tension between the state (state) and the community (community), namely to shift state responsibility in tackling problems (including poverty) in society. According to him, this can only be done if it is supported by local institutions that have the capacity and capability in accordance with the dynamics and demands of community needs.

Conceptually, empowering SMEs can mainly be done by empowering the SMEs themselves.

The success of empowerment is very dependent on the participation of SMEs as actors and other stakeholders who participate and play a role in its development. In this case the focus is more on the "bottom up" method, where planning is more attempted to answer target needs and is carried out in a participatory manner.

2.2.2 Advantages and Problems of MSMEs

MSMEs are in fact able to survive and anticipate the economic downturn caused by inflation and various other causal factors. Without subsidies or protection, small businesses are able to add to the country's foreign exchange, especially small industries in the informal sector and are able to play a role as a buffer in the economy of the lower strata of the small community. According to Astri and Triyulianti (2022), small entrepreneurs have advantages, namely having a more personal relationship with customers, suppliers, and employees; efficiency in various ways; source of innovation; including flexibility in various actions; controlling factors for large companies that tend to develop monopolies; broader social life; and the production or development of leaders.

Then, the weaknesses found in small entrepreneurs, namely the lack of ability to manage as a result of a lack of training and development, weak financial power, a less strong competitive position, an imperfect recording system, lack of coordination between production and sales, increased operational complexity.

2.3 MSME Empowerment Strategy

Various strategies and programs for empowering MSMEs have been pursued both by the government itself and through the support of the community, universities, business people and other stakeholders. Because synergy in empowering MSMEs is a key determinant in order to build strong and highly competitive MSMEs in the future.

2.3.1 CSR Programme

One of the synergies that has been successfully carried out in several countries abroad is cooperation or partnership between MSMEs and large businesses. The ideal partnership is based on the existence of business linkages, through the principles of mutual need, mutual strengthening and mutual benefit known as a "win-win solution". Practices like this are widely developed, both in sub-contracting, franchising, nucleus-plasma, and other partnership patterns. Large companies engaged in the automotive sector (Toyota, Honda and others); in the electronics sector (Sony, Toshiba, Panasonic); in the food sector (Mc. Donald, Kentucky Fried Chicken, Es Teller 77); the plantation and fishery sectors (palm oil, shrimp ponds, and seaweed) are some examples of implementing these partnership patterns (I Wayan Dipta, 2008)

2.3.2 Development of Micro Credit Programme

Fathoni et al., (2022) explains that to empower the economically weak community or the small business sector is to provide an affordable source of business financing. One of the financing strategies for this group is the micro credit business.

In fact, microcredit has been proven to be effective and popular in efforts to overcome poverty (Basukianto et al., 2017). In its development, the concept of microfinance has expanded not only as an alternative source of financing for small businesses, but more than that, as an approach to economic development (Idayu et al., 2021). Several models of microcredit can be found from within the country and abroad. Domestically, microcredit models, such as Small Business Credit (KUK), Prosperous Family Business Credit (KUKESRA), Village Unit Business Entities (BUUD), YPWI, Bina Swadaya,

2.3.3 Development of Cluster Models

The cluster phenomenon has attracted the attention of economists to engage in the study of location problems, giving rise to a new paradigm called new economic geography (new economic geography or geographical economics) (Monggo, 2020; Zhang & Zhao, 2004). This argument is reinforced by Porter, that today's economic map is dominated by what he calls clusters (Saunila, 2017). The same thing was emphasized by Kuncoro that industries tend to agglomerate in areas where their potential benefits are due to the location of companies that are close to each other (Kuncoro, 2002).

3. Methods

Appropriate study approach in order to obtain accurate and accountable study results. The study approach that will be used in this study is the MSME Development Model in Riau province.

3.1 Corporate Social Responsibility (CSR)

This MSME Development Model is a cooperation or partnership program between MSMEs and large businesses based on business linkages, through the principles of mutual need, mutual strengthening, and mutual benefit known as a "win-win solution". This development model has been widely developed, both in terms of sub-contracting, franchising, nucleus-plasma, and other partnership patterns.

Through this partnership pattern, it is hoped that there will be a transfer of technology and management from large companies to smaller ones. In addition, the partnership pattern will encourage an increase in the competitiveness of MSMEs. The partnership will build certainty on product supply, because everything is regulated in an agreement in the form of a contract.

Furthermore, Corporate Social Responsibility (CSR) can be used as a partnership solution that can strengthen the competitiveness of MSMEs and encourage MSMEs to be strong. Partnership program development with a CSR pattern can be carried out in various patterns, such as community development, capacity building, product promotion, and even strengthening capital for Micro and Small Enterprises.

3.2 Micro Credit Development Program

The Micro Credit Development Program is a capital loan program to support small entrepreneurs in their activities, generally with alternative collateral guarantees and a repayment monitoring system. Loans are given to serve daily working

capital, as initial capital to start a business, or as investment capital to buy immovable assets. In general, microcredit caters to a specific geographic area or a specific community. Funds were initially provided in response to the needs of certain groups such as women, new arrivals, children, and the disabled. Most microcredit businesses offer some form of technical assistance, such as small business training, exchange of experiences among members, and networking opportunities.

Apart from that, the micro-credit program is also a program that extends small loans to the poorest people to finance activities that they carry out themselves in order to generate income, which allows them to care for themselves and their families, "programs extend small loans to very poor for self-employment projects that generate income, allowing them to care for themselves and their families."

The microcredit program has in fact proven to be effective and popular in efforts to overcome poverty, although initially microcredit was born as a breakthrough for providing financial services to low-income people who do not have access to the modern financial system. In its development, the concept of microfinance has expanded not only as an alternative source of financing for small businesses, but more than that, as an approach to economic development.

3.3 Cluster Model Development

The cluster model MSME development pattern is a concentration of activities from companies and institutions that are interconnected in certain areas that are spatially concentrated and specialize in only one or two main industries. Usually, the activities of companies in this area are basically production groups that agglomerate in areas where their potential benefits are due to the location of companies that are close to each other.

In relation to MSMEs, based on experience from Small Scale Industry (ISK) and Medium Scale Industry (ISM) centers in several countries, it turns out that establishing industrial centers in certain locations can make traditional products experience rapid growth and even developing export markets for these goods and absorbing a lot of labor. This experience shows that small industries in the centers (community based industries) can develop more rapidly, are more flexible in facing market changes, and can increase their production than small industries individually outside the centers.

The data that has been processed is compiled and then analyzed. Using SWOT. This analysis is a method to explore aspects of the conditions in a planned area as well as to describe the various potentials and challenges that will be faced in the development of the MSME center. The word SWOT itself is an abbreviation of the evaluation variables, namely STRENGHT, which means the potential and strength possessed by the MSME centers. WEAKNESS, which means the problems and challenges faced by MSME centers. OPPORTUNITY, which means opportunities for the development of MSME centers. TREATMENT, which means the treatment that must be given for

the improvement and development of MSME centers.

Specifically, the SWOT analysis model that will be used in the implementation of this work is that introduced by Benzaghta et al., 2021, as shown in the table. This table displays a six-box matrix, the two most above are external factor boxes, namely opportunity and threat/challenge factors. While the two boxes on the left are internal factor boxes, namely strengths and weaknesses.

Tabel 1. Swot Analysis Matrix - Isyu Classification

Faktor	OPPORTUNITIES	THREATHS
Eksternal		
Faktor Internal		
STRENGTHS	COMPARATIVE ADVANTAGE	MOBILIZATION
WEAKNESSES	INVESTMENT DIVESTMENT	DAMAGE CONTROL

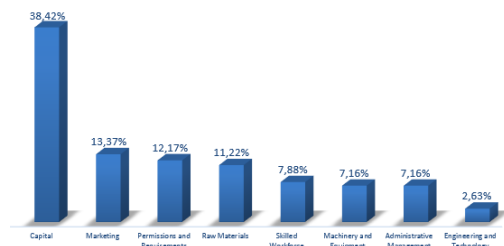
Source: Benzaghta et al. 2021

4. Results and Discussion

MSME empowerment has indeed become a national and regional commitment, which aims to achieve justice in the economic field, because MSMEs have enormous potential to support equitable development both between sectors, between groups and between regions. MSME businesses that are based on human and local resources are the best solution for optimizing the potential of national and regional resources, but to make MSMEs the basis for regional development which simultaneously supports the success of national development are still faced with many problems, including:

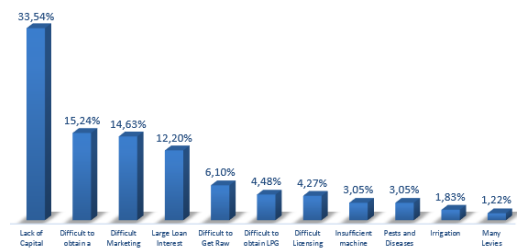
- a) The low productivity of MSMEs has an impact on the emergence of gaps between MSMEs and large businesses;
- b) Limited access of MSMEs to productive resources such as capital, technology, markets and information;
- c) The unconducive business climate faced by MSMEs has resulted in the marginalization of this group.

In order to obtain an appropriate model that can be applied in the development/empowerment of MSMEs, it is necessary to know in advance about the problems encountered in order to find a solution for the solution. From the survey results, it is illustrated that the main problems faced by MSMEs in Riau province sequentially are capital problems (38.42%) followed by marketing problems (13.37%), permits and requirements (12.17%), raw materials (11.22%), labor/experts (7.88%), machinery and equipment (7.16%), and management (7.16%) as well as technical and technological issues (2.63%).



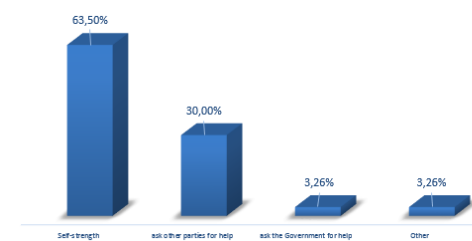
Graph 1. Main Problems Faced by MSMEs in Riau Province, 2021
(Source: Processed Data from Survey Results, 2022)

Meanwhile, if we also look at the focus of the problems faced by MSMEs in Riau Province, the survey results show that lack of capital (33.54%) is the main focus, followed by difficulties in obtaining loans (15.24%), difficulties in marketing (14.63%), high loan interest (12.20%), difficult to obtain raw materials (6.10%), frequent power outages (4.87%), difficult licensing (4.27%), inadequate machinery (3.05%), plant pests and diseases (3.05%), irrigation (1.83%) and the amount of fees (1.22%).



Graph 2. Focus on the Problems Faced by MSMEs in Riau Province, 2021
(Source: Processed Data from Survey Results, 2022)

Then, in terms of how to solve the problems encountered, the survey results show that the majority of SMEs in Riau Province solve problems using their own efforts/strength (78.26%), others through assistance from other parties (15.22%) such as using consulting services, NGOs and others. Furthermore, efforts to solve other problems are through government assistance (3.26%) and others such as assistance from family or colleagues (3.26%).



Graph 3. How to Solve Problems by MSMEs in Riau Province, 2021
(Source: Processed Data from Survey Results, 2022)

Seeing the various problems of Micro, Small and Medium Enterprises in Indonesia, in general it can be interpreted that the developments that have taken place cannot be said to be optimal. The most fundamental problem is that govern-

ment regulations, especially economic policies to support the strength of the country's economy, still rely on the industrial sector and large-scale companies with the hope that later they will provide greater output or increase domestic production, especially domestic income. Learning from the economic crisis that occurred, it has been proven that the activities of the real sector of society, especially in the micro and small business sector, were quite strong and survived the crisis, even contributing to the national workforce.

It is really naive that the government, as the party with the authority to regulate the country's economy, pays little attention to or is not in favor of the problem of Micro and Small Enterprises. Therefore, considering that the challenges facing the future are increasingly severe, especially due to global competition, it is hoped that the government will need to take anticipatory steps so that the sustainability of micro, small and medium enterprises can be maintained and protected. Various strategies and programs for empowering MSMEs have been pursued both by the government itself and through the support of the community, universities, business people and other stakeholders, because it is realized that synergy in empowering MSMEs is a determining key in order to build strong and highly competitive MSMEs in the future.

In a broader spectrum, analyzing MSME problems is recognized as phenomenal and dynamic so that development is always faced with obstacles. However, this is not the case with what happened in the regions. Therefore, every effort made by the Regional Government through programs and plans that have been prepared can be carried out optimally and look more concrete and touch the root of the problem.

Moving on to the substance of this study, the problems of MSMEs in Riau Province are certainly not much different from MSMEs in other regions. It's just that what must be considered is how much regional potential can support the development of MSMEs themselves and what problems are being faced so that they become inhibiting factors in their development. These two reasons are very important to know, because every effort that is made needs to be based on an analysis of strengths and weaknesses, so that solutions and development patterns will be obtained. By taking into account the conditions of Micro, Small and Medium Enterprises in Riau Province, both the potential and the problems faced, a development pattern or model is formulated that will be developed for these MSMEs. The pattern or model that will be developed for MSMEs will also consider several supporting factors that can create opportunities and encourage the business climate for MSMEs in Riau Province. Among these supporting factors are:

1. In Riau Province there are several large companies including mining, oil, plantation and processing industries. The existence of this company will be able to become a business partner in fostering and providing capital for MSMEs.
2. Riau Province has several special areas that are being developed into new centers of

economic growth. Based on the assumption of the need for goods and services in the region, it is very likely that micro, small and medium enterprises will emerge in accordance with the characteristics or superior products in the region.

3. Access to Riau Province can be reached by land and sea, and by air, this means that economic mobilization, especially the distribution of goods and services, is very easy to do.
4. Riau Province is a tourist area because there are several historical sites. For micro, small and medium businesses, tourist visits to this city will encourage the business climate, especially those related to the provision of travel services and other goods.

Determining the MSME development model must be based on the problems and supporting factors that are owned. Without paying attention to this, the development of MSMEs will be difficult. Seeing the problems of MSMEs in Riau Province and the classification of their needs, the MSME development uses a Corporate Social Responsibility (CSR) approach, micro credit development programs and cluster model development. These three models are considered very relevant for the development of MSMEs in Riau Province, because apart from being able to solve problems, this model also provides an analysis of the business opportunities being developed.

4.1 Corporate Social Response (CSR)

Corporate Social Responsibility or what is known as CSR is an MSME development program with a pattern of cooperation and partnership between large companies and smaller companies or industries. This partnership pattern adheres to the principle of concern for mutual assistance and protection as well as improving product quality and creating competitiveness. Seeing the problems of MSMEs in Riau Province, based on the survey conducted, the main problems faced by MSMEs in the district are capital and marketing. By using this CSR development model, the existence of large companies should have been taken into account and demanded a real role in the development of MSMEs. Strengthening capital for MSMEs can be done with the help of community development funds or other matching funds from companies.

Realizing this partnership needs to be based on concern and the principle of mutual progress. In addition, the role of the government as a policy maker is also very decisive. For that we need the wisdom and commitment of all parties involved. The company as the adoptive father will give a role if the contribution made will have social benefits for the community or provide added economic value for the company itself. For Micro, Small and Medium Enterprises, it is hoped that they will have greater motivation and innovation power and can increase their capabilities and independence because the market tends to be oriented towards service and product quality.

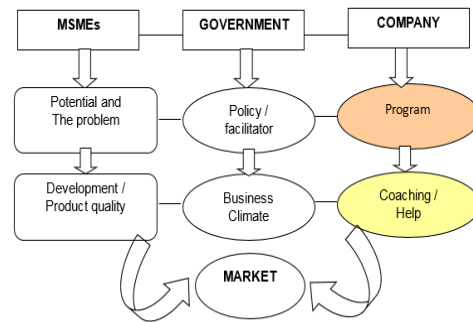


Figure 1. Corporate Social Responsibility (CSR)
(Source: Processed Data from Survey Results, 2022)

4.2 Micro Credit Development Program

Based on the composition and type of the MSME sector in Riau Province, the number of micro and small businesses is quite large. This type of business is found in almost every district in Riau Province. From the results of the survey conducted, the focus of the problems faced by this type of business are capital difficulties, loan interest problems, licensing and product marketing. Most of those who do this business are ordinary people, both local people and immigrant communities. On average, in running a business, they still use their own capital and do not use much technology and more modern business management. Seeing this fact, using a microcredit development program approach is very appropriate.

In Riau Province, currently there are many financial institutions, both banks and non-banks, offering various MSME development programs through soft credit facilities. This gift or disbursement aims to develop micro and small businesses. In terms of MSME problems in Riau Province, this opportunity is certainly a breath of fresh air for micro and small businesses. It remains only now how the disbursement and credit assistance can be utilized by a number of micro and small businesses in Riau Province.

From existing experience, the problem of extending credit to micro and small businesses is always faced with various problems. The first problem is the tight or lengthy bureaucracy for managing loans at these financial institutions, resulting in a reluctance of business actors to obtain loans. The second problem is that the interest rate on loans from financial institutions is still high, resulting in bottlenecks in repaying loans.

Seeing this fact, the role of the government is highly expected. This challenge requires the government to immediately formulate programs and strategies for MSME development, including carrying out regulations together with financial institutions to provide interest reduction and facilitate loan procedures and even, if possible, create a credit guarantee system (financial guarantee system) that is primarily sponsored by the central government and area. In addition, the development program for MSMEs is no less important, because the failure or lack of business development experienced by micro and small business actors is sometimes caused by limited management capabilities, business climate and a lack of

ability to read existing market opportunities. To overcome this problem the government can use a development strategy by:

- a) Create a conducive business climate and provide an environment that is able to encourage the development of SMEs in a systemic, independent and sustainable manner
- b) Creating a credit guarantee system (interest, procedures, guarantees)
- c) Simplify permits, taxes and other fees,
- d) Facilitate access to raw materials, technology and information
- e) Provide technical assistance (training, research) and mentoring and management (HR, finance and marketing)
- f) Regularly conduct meetings, workshops on good and appropriate business service models

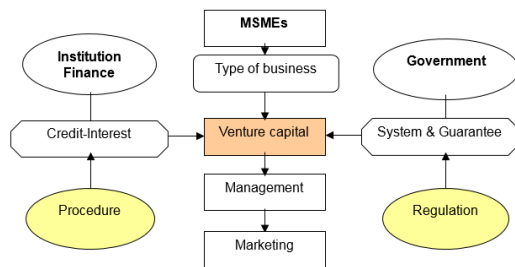


Figure 2. Micro Credit Development Program (Source: Processed Data from Survey Results, 2022)

4.3 Cluster Model Development

Looking at the potential of the region and several areas in Riau Province, it is very possible for the pattern of MSME development in the long term to use the cluster model. This assumption departs from the increasing number of people's population and investment developments that are taking place in Riau Province. There are several aspects that must be considered for an area to become a MSME center including:

1. The area has sufficient potential and raw materials.
2. There are a number of MSME businesses that are similar and related to each other
3. The area is easy to reach / close to the market.
4. There is production specialization based on regional characteristics.

Taking into account the several aspects above, the MSME center areas that can be developed based on this cluster model are the Regency/City Capitals in Riau Province. This city besides being the capital of the Regency and the center of government, is also a tourist area. Based on this potential, it is possible for the Regency/City Capital to become a MSMEs center area in the future which has specialties such as regional specialties as well as travel services, lodging and so on. Making the MSME center area in Riau Province requires big planning and investment. But it needs to be realized that through the development of this model, it will later contribute to the region, where in general every establishment of MSME centres will provide an economic multiplier effect while at the same time pushing the area to become a center of economic growth. Making an MSME centre area requires a careful planning process including carrying out

regional feasibility studies, investment allocation and regulations from the Government.

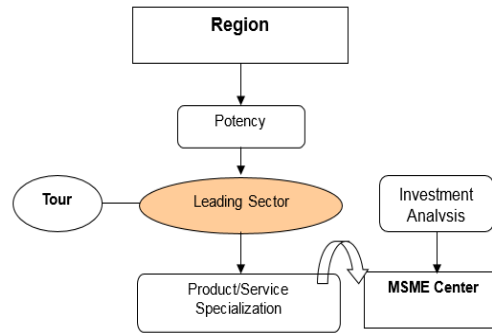


Figure 3. Cluster Model Development (Source: Processed Data from Survey Results, 2022)

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