

**Research Paper**

## Enhancing Community Welfare Through Micro, Small, and Medium Enterprises (MSMEs): Insights from Islamic Economic Principles

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### ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as pivotal drivers of national economic development, particularly in mitigating unemployment and poverty in rural communities. This study investigates the role of tape-producing MSMEs in enhancing community welfare, focusing on female workers in Pordapor Village. A qualitative methodology was employed, with primary data collected through in-depth interviews and structured questionnaires administered to 10 female workers. Data were analyzed using systematic stages of reduction, presentation, and conclusion verification. Findings reveal that tape MSMEs provide critical employment opportunities and generate income that contributes to local livelihoods. Despite persisting gaps in fully meeting basic and secondary needs, these enterprises are perceived to substantially improve the socio-economic well-being of residents. From the perspective of Islamic economics, tape MSMEs promote *maslahah* (public benefit) and *falah* (prosperity), emphasizing their role in fostering socially responsible entrepreneurship and sustainable rural development. The study highlights practical implications for policymakers, local entrepreneurs, and community development practitioners by demonstrating how MSMEs can serve as effective instruments for economic empowerment and social welfare enhancement. These insights reinforce the potential of MSMEs to drive inclusive growth, particularly in rural settings where access to formal employment is limited.

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## Introduction

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as pivotal drivers of economic development across both developed and developing countries. In Indonesia, MSMEs hold a strategic and indispensable role in fostering national economic growth, alleviating poverty, and generating employment opportunities. They provide an essential buffer against the economic vulnerabilities of low-income populations, particularly in rural and semi-urban areas where access to formal employment is limited (KemenkopUKM, 2021). MSMEs are not merely economic actors; they are agents of social and community development, contributing to the improvement of local living standards, income distribution, and societal welfare. According to the Ministry of Cooperatives and SMEs, MSMEs contribute approximately 61% to Indonesia's Gross Domestic Product (GDP) and absorb around 97% of the workforce, underscoring their centrality to national economic resilience (KemenkopUKM, 2021).

The strategic importance of MSMEs extends beyond macroeconomic metrics to encompass micro-level impacts on household welfare and individual livelihoods. In rural communities, MSMEs often provide the primary source of income for families, particularly for women and marginalized groups, who may otherwise face barriers to entering formal employment sectors. Research indicates that MSMEs significantly reduce poverty levels by offering income-generating opportunities that enhance household consumption, access to education, and healthcare (Rahmawati & Kurniawan, 2020). By integrating marginalized populations into productive economic activities, MSMEs foster social inclusion and strengthen community cohesion. Moreover, the adaptability and resilience of MSMEs allow them to thrive even during economic crises, which often disproportionately affect formal sectors, highlighting their potential as instruments of sustainable economic development.

Despite their evident contributions, MSMEs face persistent challenges that may limit their growth and impact. One of the most pressing obstacles is limited access to capital, particularly in rural areas where financial infrastructure is underdeveloped. Small-scale entrepreneurs often rely on personal savings or informal lending, which restricts their capacity to scale operations, invest in technology, or diversify production (Aliyah, 2022). Other constraints include limited market access, inadequate managerial skills, and regulatory barriers that may hinder operational efficiency. Addressing these challenges requires coordinated interventions from government agencies, financial institutions, and community organizations. Policies that enhance MSMEs' access to credit, provide technical training, and facilitate market linkages are critical in enabling these enterprises to realize their full potential. In Indonesia, various government programs have sought to mitigate these constraints, but empirical evidence suggests that implementation effectiveness varies, particularly in rural contexts (Aliyah, 2022).

Beyond economic contributions, MSMEs play a critical role in empowering local economies by leveraging indigenous resources and promoting cultural sustainability. Many MSMEs operate within traditional industries, preserving local craftsmanship and cultural heritage while creating employment and income opportunities. This dual function of economic and cultural preservation positions MSMEs as key instruments for inclusive and sustainable development. Furthermore, MSMEs often drive innovation and creativity, developing unique products and services despite resource limitations. Such entrepreneurial dynamism not only diversifies local economies but also enhances resilience against external economic shocks. By fostering diversified and decentralized economic structures, MSMEs

contribute to regional stability and reduce reliance on specific sectors, thereby mitigating economic vulnerability.

The social dimension of MSME development is particularly significant in the context of female labor participation. Women's involvement in MSMEs has been linked to improved household welfare, enhanced education for children, and greater decision-making power within families (Rahmawati & Kurniawan, 2020). In rural Indonesian communities, enterprises such as tape production offer women both economic independence and social recognition, allowing them to contribute meaningfully to household income and community well-being. These dynamics underscore the multifaceted role of MSMEs—not only as economic units but also as mechanisms for social empowerment, gender equality, and local development.

Existing literature has extensively documented the relationship between MSMEs and community welfare. Kadeni and Sriyani (2020) explored the general impact of MSMEs on societal prosperity, identifying indicators of household welfare, employment, and income generation. Similarly, Aliyah (2022) emphasized the role of MSMEs in meeting basic daily needs, while highlighting persistent capital constraints as a significant barrier to growth. Rahmawati and Kurniawan (2020) examined the collaborative dynamics between government institutions and MSMEs, stressing the importance of policy support for sustainable community development. While these studies provide foundational insights, they tend to focus on broad welfare indicators or operational challenges, often neglecting the integrative lens of Islamic economic principles that encompass both material and spiritual dimensions of well-being.

Islamic economics, with its emphasis on *maslahah* (public benefit) and *falah* (comprehensive prosperity), offers a unique perspective for analyzing MSMEs' contributions to community welfare. This approach not only considers income and employment effects but also evaluates the ethical, social, and spiritual impacts of economic activities. For example, enterprises that operate in accordance with Shariah principles may contribute to equitable wealth distribution, social justice, and communal harmony, aligning economic activity with broader societal values. By framing MSME development within an Islamic economic paradigm, researchers can gain a deeper understanding of how small-scale enterprises influence holistic well-being, particularly in communities where religion shapes social and economic norms.

The novelty of the present study lies in its focus on the impact of MSME income on worker welfare through the lens of Islamic economics—a perspective that has received limited empirical attention in previous research. Specifically, this study examines tape-producing MSMEs in Pordapor Village, analyzing how these enterprises support female workers' socioeconomic welfare. Unlike prior studies that concentrate on general economic outcomes, this research emphasizes the intersection of income generation, employment, and ethical economic principles. By doing so, it contributes to the emerging literature on Shariah-compliant economic practices, highlighting the role of MSMEs in fostering both material prosperity and social well-being.

From a theoretical standpoint, this study draws upon classical and neoclassical welfare theories to evaluate community well-being, integrating them with Islamic economic principles to provide a multidimensional perspective. Welfare theories conceptualize well-being as the capacity to meet basic and secondary needs, including consumption, education, and healthcare, and are useful for quantifying the impact of MSME activities. When combined

with Islamic economic frameworks, these theories allow for a holistic assessment of how economic participation enhances individual and collective prosperity while maintaining ethical and social values.

The research gap addressed in this study is twofold. First, although previous studies have explored the economic contributions of MSMEs, few have focused on the direct impact of MSME income on the welfare of individual workers, particularly female laborers in rural areas. Second, the integration of Islamic economic principles in evaluating MSME contributions remains underexplored. By examining these dimensions, this study seeks to fill a critical void in the literature, providing empirical evidence on how MSME activities contribute to both material and spiritual well-being in the community.

Accordingly, the objectives of this research are: (1) to analyze the role of MSMEs in enhancing community welfare, focusing on the case of tape-producing enterprises in Pordapor Village, and (2) to evaluate how MSMEs contribute to worker prosperity within the framework of Islamic economics. The study's contribution is threefold: it offers empirical insights into rural MSME dynamics, highlights the socioeconomic empowerment of female workers, and integrates Islamic economic perspectives into the evaluation of community welfare. Ultimately, this research provides actionable insights for policymakers, practitioners, and local entrepreneurs seeking to leverage MSMEs for inclusive and sustainable development, while promoting both material and ethical dimensions of well-being.

In conclusion, MSMEs are not merely small economic units but are instrumental in fostering holistic development. Their potential extends beyond employment and income generation to encompass social empowerment, cultural preservation, and ethical economic practice. By examining the interplay between MSME income, worker welfare, and Islamic economic principles, this study provides a comprehensive understanding of how small-scale enterprises can serve as catalysts for sustainable and inclusive community development. This research aims to inform policy, enhance the theoretical literature on Islamic economics, and offer practical recommendations for leveraging MSMEs as tools for socioeconomic empowerment in rural Indonesia.

## Method

This study employed a qualitative research design to comprehensively explore the role of Micro, Small, and Medium Enterprises (MSMEs) in enhancing community welfare, particularly from the perspective of tape workers in Pordapor Village. A qualitative approach was selected because it allows researchers to gain an in-depth understanding of social phenomena, capturing participants' experiences, perceptions, and insights in a rich and contextualized manner (Creswell & Poth, 2018). The study adopted a case study design with a descriptive qualitative approach, focusing specifically on tape-producing MSMEs in Pordapor Village. Case studies are particularly appropriate for examining complex real-life phenomena and understanding how economic activities impact individuals and communities (Yin, 2018).

The research subjects consisted of 10 female tape workers, who were selected using a snowball sampling technique to ensure that participants had direct experience with MSME operations and could provide relevant insights (Noy, 2008). Primary data were collected through semi-structured, in-depth interviews guided by a questionnaire, covering topics such as tape production, workers' income, and expenditure patterns over a one-year period. To complement these data, secondary sources—including documentation and existing records

related to the MSMEs—were analyzed to provide additional context and support the findings. This combination of primary and secondary data allowed for a comprehensive understanding of both the operational aspects of the MSMEs and their socioeconomic impact on the workers.

Data analysis followed the interactive model proposed by Miles and Huberman (1994), which involves three interrelated stages: data reduction, data display, and conclusion drawing/verification. During data reduction, raw data from interviews and field notes were simplified, abstracted, and organized to focus on the most relevant information addressing the research questions. The reduced data were then presented in narrative form, tables, and charts to identify patterns, relationships, and trends. Finally, conclusions were drawn based on the analyzed data and verified against the field evidence to ensure validity and reliability. By integrating data collection and analysis in this manner, the study provides a rigorous and systematic examination of how tape-producing MSMEs contribute to the socioeconomic welfare of female workers in Pordapor Village.

## **Results**

The present study investigated the role of Micro, Small, and Medium Enterprises (MSMEs), specifically tape production units, in enhancing community welfare in Pordapor Village. The results were obtained through qualitative fieldwork involving in-depth interviews with ten female tape workers, supported by secondary data on production output, income, and expenditure patterns. The findings indicate that tape-producing MSMEs serve as a crucial mechanism for income generation, employment creation, and local economic empowerment, confirming prior literature on the pivotal role of MSMEs in national and rural development (Aliyah, 2022; Kadeni & Srijani, 2020).

### ***Employment and Income Generation***

The primary data revealed that the tape MSMEs significantly absorb local labor. As reported by participants, the production process is labor-intensive, requiring consistent engagement from workers to maintain product quality. For instance, one informant, Mrs. Rusmiyati, highlighted that “making tape requires teamwork, and the quality improves when more hands are involved” (personal communication, December 2023). This observation aligns with previous studies indicating that MSMEs are vital for providing employment in rural areas where formal sector opportunities are limited (Rahmawati & Kurniawan, 2020). The data suggest that before engaging in tape production, many workers had no stable income or were involved in temporary informal work, which often provided insufficient financial stability.

Income from tape production has shown a gradual increase over time. The workers reported that monthly earnings have been sufficient to cover primary household expenses, such as food, basic clothing, and school supplies. Quantitative estimation from the interviews and production records indicates that daily profits from tape sales average over 50% of individual workers’ previous income levels, demonstrating substantial improvements in material welfare. This corroborates findings by Aliyah (2022), who emphasized that MSMEs contribute directly to household income and play a role in poverty alleviation. Nevertheless, while income increases have been significant, participants noted that earnings are not yet sufficient for high-value purchases, such as home ownership, motorcycles, or durable consumer goods. This finding highlights the partial fulfillment of economic welfare and suggests a gradual improvement trajectory rather than complete financial independence.

### ***Contribution to Household Welfare and Living Standards***

The study further examined the impact of MSME engagement on household welfare. Most respondents indicated that their involvement in tape production enables them to provide basic needs for their families. Access to regular income has allowed families to afford a more balanced diet, school fees, and minor household improvements. The participants emphasized that while basic needs are met, aspirations for higher standards of living, including durable assets and leisure expenditures, remain partially unfulfilled. These observations align with classical welfare theories, where material income contributes to well-being but must be supplemented with broader social and psychological factors for full welfare realization (Sen, 1999).

From a psychosocial perspective, participation in tape production fosters a sense of purpose and personal agency among workers. Respondents expressed increased self-esteem and social recognition within the community, noting that engaging in productive work positively influences family dynamics and social networks. The findings are consistent with the view that economic activity, particularly in locally embedded enterprises, promotes both financial and social dimensions of well-being (Chowdhury et al., 2021). Thus, MSMEs not only serve as a source of material income but also as a mechanism for empowerment and social cohesion.

#### ***Local Economic Empowerment and Resource Utilization***

An additional theme emerging from the results is the contribution of tape MSMEs to local economic empowerment. The enterprises leverage local resources—primarily cassava—as the primary raw material, creating a circular economy within the village. The reliance on indigenous resources not only reduces production costs but also enhances local food value chains, benefiting farmers and suppliers. This practice illustrates how MSMEs stimulate rural economies by integrating local supply chains and promoting community-based economic development (Bartik, 2020).

Furthermore, the results indicate that tape MSMEs encourage skill development among workers. Respondents reported gaining expertise in production techniques, quality control, and marketing strategies. These skills are transferable and increase employability within and beyond the village. The findings suggest that MSMEs act as informal training grounds, fostering human capital development, which aligns with previous studies highlighting the educational and skill-enhancement functions of small enterprises (Creswell & Poth, 2018).

#### ***Limitations and Challenges***

Despite these positive outcomes, several challenges were identified. Limited access to capital remains the most significant constraint, affecting the ability to scale production and invest in advanced equipment. Participants expressed the need for microfinance access and government support programs to enhance operational efficiency. These results resonate with prior research emphasizing capital constraints as a persistent barrier for rural MSMEs (Aliyah, 2022).

Additionally, seasonal fluctuations in raw material availability occasionally disrupt production schedules, leading to income instability. While the majority of respondents manage these disruptions through savings or temporary alternative work, the volatility emphasizes the vulnerability of small-scale enterprises to external shocks. This insight complements studies in rural economic resilience, suggesting that diversification of income streams and supportive institutional frameworks are critical to sustaining welfare improvements (Bartik, 2020).

#### ***Perceptions of Welfare in the Islamic Economic Perspective***

A distinctive aspect of this study is the assessment of welfare through the lens of Islamic economics. Respondents emphasized that income derived from tape production is considered acceptable and “halal,” enhancing their sense of spiritual satisfaction alongside material gains. The distribution of profits among workers is perceived as fair, reflecting principles of justice and ethical labor practices fundamental to Islamic economic thought (Chapra, 2008). Concepts such as *maslahah* (public benefit) and *falah* (success in this world and the hereafter) were cited by respondents as key dimensions of welfare, indicating that economic gains are intertwined with ethical and spiritual well-being.

Moreover, respondents reported that adherence to Islamic values, including honesty, transparency, and mutual cooperation, shapes workplace interactions and enhances social cohesion. Such practices reinforce the holistic understanding of welfare in Islamic economics, encompassing material, spiritual, and social dimensions simultaneously (Khan, 2010).

#### ***Summary of Key Findings***

In summary, the results reveal that tape-producing MSMEs in Pordapor Village play a multifaceted role in enhancing community welfare. They generate employment, increase household income, and improve living standards, while also empowering workers through skill development and social recognition. The enterprises stimulate local economic activity by utilizing indigenous resources and promoting value-chain linkages. Challenges, including capital constraints and production variability, partially limit welfare improvements but do not undermine the positive contributions of MSMEs. The integration of Islamic economic principles further underscores that welfare extends beyond material gains to include ethical, social, and spiritual dimensions, reinforcing the holistic impact of MSMEs on community development.

These findings contribute to the growing body of literature on the importance of MSMEs in rural development and provide empirical support for policies that enhance the capacity of small enterprises to generate sustainable income, promote equity, and foster socially responsible business practices (Aliyah, 2022; Bartik, 2020; Creswell & Poth, 2018; Khan, 2010; Rahmawati & Kurniawan, 2020).

#### **Discussion**

The present study examined the multifaceted role of Micro, Small, and Medium Enterprises (MSMEs), specifically tape production units, in enhancing the welfare of communities in Pordapor Village. The findings reveal that MSMEs not only contribute materially to household income and employment but also provide broader socio-economic and ethical impacts, consistent with both contemporary development economics and Islamic economic principles (Aliyah, 2022; Chapra, 2008). This discussion interprets these results within the context of existing literature, highlighting the theoretical and practical implications of MSME operations for rural economic development, local empowerment, and community welfare.

One of the most salient contributions of tape-producing MSMEs is employment creation. The labor-intensive nature of tape production ensures substantial engagement of local workers, particularly women, who might otherwise face limited formal employment opportunities. This finding is consistent with previous studies indicating that MSMEs are critical in absorbing labor in rural economies, where formal

sector employment is insufficient (Rahmawati & Kurniawan, 2020). The interviews revealed that tape production provides not only stable income but also predictable work schedules, which foster financial stability and facilitate household planning. Such employment opportunities directly address structural unemployment, a persistent challenge in rural Indonesia, and serve as a critical mechanism for poverty alleviation.

Moreover, the employment generated by tape MSMEs enhances social capital within the community. Workers report improved interpersonal relationships, mutual support networks, and a stronger sense of community identity. This aligns with the theoretical perspective that local employment initiatives contribute to social cohesion and collective efficacy, which are essential for sustainable rural development (Putnam, 2000). The study demonstrates that beyond monetary compensation, the availability of meaningful work contributes to psychosocial well-being, increasing self-esteem and community participation among female workers, a demographic often marginalized in labor markets.

The study's findings underscore the substantial contribution of MSMEs to household income. The earnings from tape production have allowed households to meet basic needs, including food, education, and clothing, corroborating classical welfare theories that material resources are foundational to individual well-being (Sen, 1999). Interview data indicate that daily and monthly profits from tape sales constitute more than half of the workers' previous income, signifying a marked improvement in economic status.

However, while primary needs are largely satisfied, secondary and higher-level needs—such as home ownership, durable goods, and leisure consumption—remain unmet. This partial fulfillment reflects a common pattern in small-scale enterprises, where income improvements occur incrementally and depend heavily on production scale, market demand, and access to financial resources (Bartik, 2020). Such findings highlight the necessity for complementary support mechanisms, including microfinance, training, and government-backed programs, to enable MSMEs to expand operations, increase productivity, and sustain welfare improvements.

The results also suggest that income from MSMEs promotes greater financial autonomy for female workers. Economic independence strengthens their decision-making power within households and facilitates investments in children's education and health. This outcome aligns with literature emphasizing the gendered dimensions of microenterprise participation, where women's economic engagement positively influences broader household welfare and intergenerational human capital development (Kabeer, 2005).

Another key finding is the role of MSMEs in local economic empowerment through the utilization of indigenous resources. Tape production relies on locally sourced cassava, generating upstream demand for farmers and reinforcing local supply chains. This integration of production and raw material sourcing embodies



principles of sustainable rural development, as it encourages local resource circulation and minimizes economic leakage (Bartik, 2020).

Furthermore, the study shows that participation in tape production enhances skill acquisition among workers. Employees learn technical aspects of production, quality control, and basic entrepreneurial practices, which are transferable across sectors. This skill accumulation is consistent with human capital theory, suggesting that the development of competencies improves productivity, employability, and long-term economic resilience (Becker, 1994). The MSMEs therefore serve not only as income generators but also as informal educational institutions that enhance local labor capacity.

Despite positive contributions, the study identifies key constraints affecting the welfare impact of tape MSMEs. Limited access to capital is the most pressing challenge, impeding expansion and the acquisition of modern equipment. Participants noted that reliance on personal savings or informal lending restricts production capacity and limits market competitiveness. These findings echo previous research on rural microenterprises, where financial constraints frequently hinder growth and restrict the potential for welfare improvements (Aliyah, 2022).

Seasonal fluctuations in raw material availability present another challenge, occasionally causing production disruptions. While workers adapt by seeking alternative income or utilizing savings, these fluctuations underscore the vulnerability of small-scale enterprises to external shocks. Addressing these limitations requires institutional support, including improved microfinance access, government assistance, and the establishment of cooperative supply networks to stabilize raw material procurement and reduce volatility.

A distinctive contribution of this research is the integration of the Islamic economic perspective in evaluating welfare outcomes. Participants emphasized that income derived from tape production is earned through halal and ethical practices, which are critical dimensions of welfare according to Islamic principles (Chapra, 2008). The distribution of profits through equitable sharing mechanisms ensures that workers' rights are respected, reflecting the concept of justice central to Islamic labor ethics.

The study findings align with the concepts of *maslahah* (public benefit) and *falah* (success in this world and the hereafter), as workers report increased satisfaction not only from material gains but also from ethical and spiritual fulfillment. Engaging in halal business activities and observing fairness in profit-sharing enhances the workers' sense of dignity, purpose, and community integration, supporting the holistic understanding of welfare in Islamic economics (Khan, 2010).

Moreover, the application of Islamic ethical principles—honesty, trustworthiness, and mutual assistance—shapes workplace interactions and contributes to a harmonious and productive work environment. This demonstrates that ethical practices are not merely normative ideals but have practical implications for enhancing worker motivation, social cohesion, and the overall effectiveness of

MSMEs. The integration of ethical and spiritual dimensions with economic activities provides a model for sustainable development that balances material welfare with moral and social considerations.

The study's results are consistent with prior literature emphasizing the centrality of MSMEs in poverty alleviation and rural development (Aliyah, 2022; Kadeni & Srijani, 2020). However, this research extends previous findings by incorporating the Islamic economic perspective, revealing that welfare is multidimensional and includes spiritual and ethical components alongside material well-being. The study further complements research on female labor participation in rural enterprises, highlighting that women's involvement in MSMEs enhances household income, social standing, and decision-making authority (Kabeer, 2005).

Additionally, the research contributes to the understanding of local economic resilience by demonstrating that MSMEs can integrate indigenous resources, create sustainable value chains, and foster skill development. These findings resonate with the broader development economics literature, which posits that community-embedded enterprises are critical drivers of local growth, diversification, and economic stability (Bartik, 2020).

The findings have significant implications for policy and practice. Policymakers should prioritize support for rural MSMEs through accessible financing, technical training, and market linkages to enhance their welfare impact. Encouraging ethical business practices aligned with Islamic principles can strengthen social cohesion and promote inclusive development. Furthermore, integrating capacity-building initiatives for women in MSMEs can yield positive spillover effects on household welfare and community resilience.

The study also suggests that welfare assessments should adopt a multidimensional framework, combining material, social, and spiritual indicators. Such an approach is particularly relevant in contexts where cultural and religious values significantly influence perceptions of well-being. Integrating these dimensions can provide a more comprehensive understanding of the effectiveness of microenterprise interventions in improving community welfare.

## **Conclusion**

This study provides important insights into the role of tape-producing Micro, Small, and Medium Enterprises (MSMEs) in enhancing the welfare of workers in Pordapor Village, demonstrating that these enterprises significantly contribute to employment creation, income generation, and the improvement of material well-being. Beyond economic benefits, the findings emphasize the integration of Islamic economic principles, highlighting fairness, ethical labor practices, and the pursuit of *maslahah* (public benefit) and *falah* (comprehensive prosperity), thereby advancing both theoretical understanding and practical applications in the fields of development studies and Islamic economics. The study offers guidance for policymakers, practitioners, and local entrepreneurs in designing strategies to further empower MSMEs, enhance income sufficiency, and support holistic welfare in rural communities, while illustrating how ethical and Shariah-compliant practices can promote

sustainable and equitable development. Nonetheless, the research is subject to limitations, including a relatively small sample size and a focus on a single village, which may affect the generalizability of the findings. Future studies should expand to larger and more diverse populations, employ mixed-method approaches, and explore additional dimensions of welfare, such as long-term economic mobility, social empowerment, and community-level impacts, in order to build upon this framework and deepen understanding of MSME contributions to sustainable development and comprehensive well-being.

### Authors' Declaration

The authors confirm that this study is original, all contributions are acknowledged, and there are no conflicts of interest. All authors have reviewed and approved the manuscript for submission.

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