



The Influence of Micro and Small Enterprises (MSEs) on Poverty Reduction in Indonesia 2015-2019

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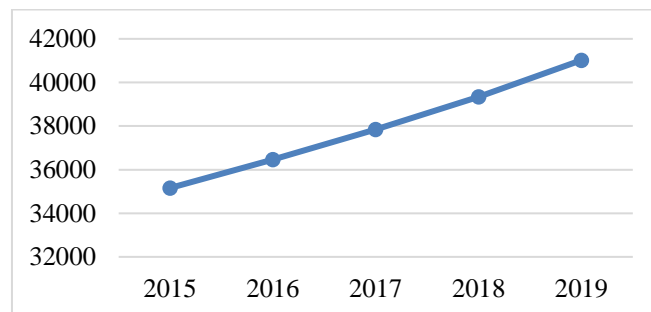
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ABSTRACT

One approach in poverty reduction is through microfinance, as a flexible financing. The small people's economy which is synonymous with Micro and Small Enterprises (MSEs) is a big influence on economic growth in Indonesia. MSEs contribute greatly to employment in Indonesia by 97% of the total workforce and the largest contributor to GDP at 61.97% or equivalent to 8,573.89 trillion rupiah. This study uses secondary data from 34 provinces using the following methods: 2 PLS regression which is a linear regression technique between the predictor variable X which is multivariate and the response variable Y to see the effect of MSEs and GDP on poverty and the effect of Poverty and MSEs on GDP per capita in Indonesia. . The end of this study in order to see the effect on the existence of GDP in Indonesia which is influenced by the number of MSEs on the current level of poverty, using the Granger method to look at 2 directions from the study.

1. INTRODUCTION

Poverty is a problem faced by all countries in the world, especially developing countries. Poverty is a problem complex that is influenced by various interrelated factors, including: income level, unemployment, health, education, access to goods and services, location, geography, gender, and environmental location (Kemenuh and Wenagama, 2017). According to the Central Statistics Agency for 2021, one of the important indicators to determine the economic conditions in a country in a certain period is Gross Domestic Product (GDP) data, both on the basis of current prices and on the basis of constant prices. Indonesia has a GDP that continues to grow from year to year, but there is still poverty in Indonesia. As in Figure 1. shows that the development of GDP per capita in Indonesia is quite good.



Source: Indonesian Central Bureau of Statistics.

Figure 1. GDP Per capita in Indonesia

Quoted from research results (Siregar & Wahyuniarsih, 2008) that economic growth has a significant effect on reducing poverty. Poverty alleviation is still a major problem in development in Indonesia, even being the first goal in the Sustainable Development Goals (SDGs) that have been agreed upon by many countries, one of them is Indonesia. Empowerment of the poor through small/micro enterprises (MSEs) by opening up opportunities and broad opportunities for the poor to participate in economic development, is one of the efforts in poverty reduction. MSEs can absorb a lot of

workers who are still unemployed, besides that they also take advantage of various potential natural resources in an area which have not been processed commercially (Budi, 2011).

In previous research, according to Tambunan, (2012) MSEs have an important role in fighting poverty in Indonesia, but MSEs still face obstacles. Likewise according to (Yu and Liu, 2021) argues that, in less developed areas, MSEs by expanding employment opportunities can reduce poverty, increase income and open up new economic opportunities for households in a rural area. The results of the Granger causality analysis show a relationship between poverty and economic growth, where poverty must be below the poverty line in increasing economic growth (Aryunah, 2017). Then, research (Kowo, Adenuga and Sabitu, 2019) has investigated how MSEs development affects poverty alleviation in Nigeria.

Based on data from the Ministry of Cooperatives and SMEs, MSMEs in Indonesia contribute to the largest GDP with a value of 8,573.89 trillion rupiah or 61.97%. Besides that, MSMEs have contributed to the Indonesian economy including the absorption of 97% of the total workforce and can collect 60.4%. Economic theory states that economic growth, which indicates an increasing number of national outputs, indicates that more people are working, so that it will reduce poverty alleviation and poverty, but currently poverty continues to increase amid increasing economic growth as well. Therefore, this study will examine how MSEs affect poverty in Indonesia in 2015-2019. This study also aims to determine the relationship between MSEs and poverty in Indonesia. As contained in the framework to see the relationship between poverty, GDP per capita, the number of MSEs workers and the number of MSEs companies in Indonesia.

1.1 Framework of thinking

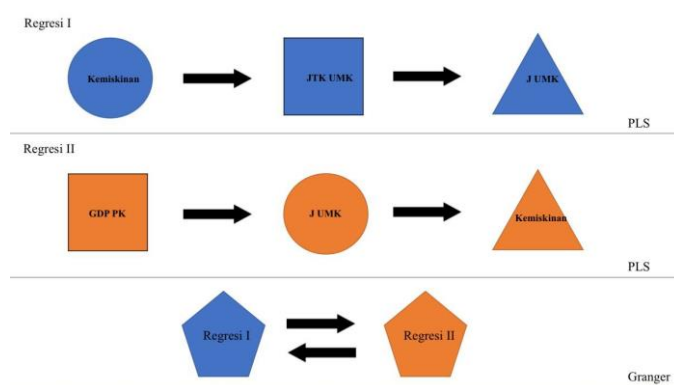


Figure 2. Framework of thinking

1.2 Problem Formulation

1. How is the influence of MSEs on poverty alleviation in Indonesia?
2. How do the MSEs and GDP affect poverty in Indonesia?

1.3 Research Objectives

This research was conducted with the aim of identifying and analyzing the influence of MSEs on poverty reduction in Indonesia

1.4 Research Benefits

The benefits of this research are expected to provide inspiration for further research to develop the same problem, and can provide readers with more knowledge about topics that are widely raised.

2. LITERATURE REVIEW

2.1 Poverty

The Central Bureau of Statistics uses the concept (basic needs approach) or the ability to meet basic needs to measure poverty by referring to the Handbook on Poverty and Inequality published by the Worldbank. In this approach, poverty is seen as an inability from an economic point of view which is measured from the expenditure side, both in meeting basic food and non-food needs. A population is categorized as poor if it has an average monthly per capita expenditure below the poverty line.

In measuring poverty carried out by the World Bank, it is one measure of inequality which refers to the percentage of expenditure in the lowest 40 percent of the population. The criteria for the level of inequality based on World Bank Size are as follows:

- [1] If the percentage of expenditure in the lowest 40 percent of the population is less than 12 percent, it is said that there is a high inequality.
- [2] If the percentage of expenditure in the group of 40 percent of the population is lowest between 12 and 17 percent, it is said that there is a moderate/moderate/medium inequality.
- [3] If the percentage of expenditure in the lowest 40 percent of the population is greater than 17 percent, it is said that there is low inequality.

Poverty when viewed from an economic perspective arises because of inequality in ownership of resources that give rise to an unequal distribution of income, differences in the quality of human resources and differences in access to capital and low opportunities existing work. The high level of poverty is an indicator that the community has not play a role in development. Empowerment of Micro and Small Enterprises (MSES) is one alternative that chosen by the government in an effort to reduce unemployment, poverty alleviation and income distribution. Remembering the role MSES strategic and still limited the ability of MSESs to develop, then Currently, small business development is a one of the strategies taken by the government in order to increase growth the economy.

2.2 Micro and Small Enterprises

The development of Micro and Small Enterprises (MSES) in Indonesia is one of the priorities in national economic development. This is because this business is the backbone of the people's economic system which is not only aimed at reducing the problem of inequality between income groups and between business actors, or poverty alleviation and employment. Moreover, its development is able to expand the economic base and can make a significant contribution in accelerating structural changes, namely increasing the regional economy and national economic resilience (Musran Munizu, 2010). In Law Number 11 of 2020 the success of small and medium enterprises has a direct impact on economic development in both developed and developing countries. Small and medium enterprises have the ability to create jobs at minimum cost. Micro, Small and Medium Enterprises (MSMEs) need to be carried out comprehensively, optimally, and sustainably through the development of a conducive climate, providing business opportunities, support, protection, and business development as widely as possible, so as to be able to improve the position, role and potential of MSESs in realizing economic growth, equity, and increasing people's income, creating jobs and alleviating poverty.

The development of the MSME sector so far has been very encouraging. The increasing role and business activities of the MSME sector have been increasingly visible, especially since the 1997 crisis. In the midst of the slow process of restructuring the corporate sector and BUMN, the MSME sector has shown increasing development and is even able to become a support national economic growth. Meanwhile, progress made in restructuring the financial sector, particularly the banking industry, has also been able to provide financing needs with growth rates and a larger portion for MSMEs. This development is the driving force for increasing growth and the role of the MSME sector in the national economy. Even though, The MSME sector with its vital role as an instrument to support the Indonesian economy which at the same time has an impact on poverty alleviation is still faced with several problems, such as the lack of access provided by the government through financial institutions and policy regulations that favor this sector. However, we should be optimistic about the progress of the MSME sector as a competitive instrument for poverty reduction. The success of small and micro enterprises has a direct impact on economic development in both developed and developing countries. Small and micro businesses have the ability to create jobs at minimum cost. Through MSESs, it is hoped that they can create a better community life in the future.

2.3 Research Hypothesis

Based on the background and problem formulation and outline description theoretically above, in this study the following hypotheses can be proposed:

1. It is suspected that the number of MSES units has a positive effect on labor absorption in Indonesia.
2. It is suspected that the number of MSES has a negative effect on poverty.
3. It is suspected that the poverty rate has a negative effect on GDP per capita
4. It is assumed that the number of SMEs has a positive effect on GDP per capita
5. It is suspected that the variables (Poverty, GDP per capita, Number of Micro and Small Enterprises and Number of MSESs) have a two-way influence.

3. DATA AND RESEARCH METHODOLOGY

In this study, MSESs are expected to have a role in alleviating poverty in Indonesia. The data used in this study are the number of poverty, the number of MSES workers, the number of MSES companies and GDP per capita in Indonesia in 2015-2019, which were obtained from the Indonesian Statistics Agency. This study uses the PLS (Panel Least Square) regression test method to measure a relationship between GDP per capita and MSES with poverty alleviation. The first PLS regression test is poverty which is influenced by the number of MSES workers and the number of MSES companies in Indonesia, while the second test is GDP per capita which is influenced by poverty and the number of MSES companies.

$$\text{Poverty it} = 0 + 1 \text{ number of it's MSES} + 2 \text{ of it's MSES} \quad \text{regression I}$$

$$GDP_PK_{it} = 0 + 1 MSES_{it} + 2 poverty_{it}$$

regression II

Information:

- 0 : coefficient
- number of TK_MSES : Number of MSES Workers
- number of MSES : Number of MSES Companies
- GDP_PK : GDP Per capita (Constant Price)
- i : Cross-section (Countries)
- t : *Period* (time series)

Based on Gujarati (2007) and Ferreira (2013) *granger causality* used to identify the causal relationship between the variables in the specified time period and have an impact on changes in variables that can affect other variables. In this study, we will see whether changes in GDP per capita resulting from MSESs will affect poverty or changes in poverty will affect GDP per capita where the arrow will show the direction of the causal relationship between these variables, or whether there is a relationship in both cases.

4. RESULTS AND DISCUSSION

In this study, to see the relationship between poverty and the number of workers and MSES companies in Indonesia that affect GDP per capita in Indonesia, regression tests and Granger causality tests were carried out. Tables 1 and 2 show the results of the data regression test that the independent variable significantly affects the dependent variable with the level of 5%, which indicates that there is a significant influence between the independent and dependent variables. The regression results in table 1 show R2 of 0.992384, which means that the variables (jml_MSES and jmltk_MSES) explain the effect of 99.2384% of the independent variable (poverty). In addition, table 2 shows R2 of 0.992456 which means that the variable (amount MSES and poverty) explains the effect of 99.2384% of the independent variable (gdp_pk).

Table 1. Regression Test I

Dependent Variable: POVERTY				
Method: Least Squares Panel				
Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	878.7070	48.73130	18.03168	0.0000
JML_MSES	-0.002076	0.000555	-3.743228	0.0003
JMLTK_MSES	0.000563	0.000150	3.748469	0.0003
R-squared	0.992384	SE of regression		108.9599
Adjusted R-squared	0.990395	SD dependent var		1111.794

Dependent Variable: GDP_PK
Method: Least Squares Panel

Table 2. Regression Test II

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	42123.78	2351,369	17.91458	0.0000
JML_MSES	0.027769	0.010886	2.550962	0.0119
POVERTY	-6.108472	2.258899	-2.704181	0.0077
R-squared	0.992456	SE of regression		2994,810
Adjusted R-squared	0.990485	SD dependent var		30701.87

Table 3 shows the results of the Granger causality test to determine the relationship between poverty, the number of MSES companies, the number of MSES workers and GDP per capita. Using Lag 2 with a value of 5%, that the number of MSES workforce levels affects the number of MSES companies, the number of MSES companies affects the poverty level and poverty affects the MSES workforce, but there is no relationship between poverty and GDP per capita or GDP per capita and the number of MSESs.

Table 3. Granger Causality Test

Granger Causality Test	F-Statistics	Prob.
JMLTK_MSES does not Granger Cause JML_MSES	3.24949	0.0431*
JML_MSES does not Granger Cause JMLTK_MSES	0.13363	0.8751
POVERTY does not Granger Cause JML_MSES	17.1385	4.E-07
JML_MSES does not Granger Cause POVERTY	4.29952	0.0163*
GDP_PK does not Granger Cause JML_MSES	0.17189	0.8423
JML_MSES does not Granger Cause GDP_PK	0.24433	0.7837
POVERTY does not Granger Cause JMLTK_MSES	7.24982	0.0012**
JMLTK_MSES does not Granger Cause POVERTY	10.9292	5.E-05
GDP_PK does not Granger Cause JMLTK_MSES	0.03770	0.9630
JMLTK_MSES does not Granger Cause GDP_PK	0.18784	0.8291
GDP_PK does not Granger Cause POVERTY	0.07673	0.9262
POVERTY does not Granger Cause GDP_PK	0.11935	0.8876

*, **, *** indicate significant levels 90%, 95% and 99%

CONCLUSION

In poverty alleviation efforts, MSESs have an important role in the level of poverty in Indonesia. MSES is one of the priorities in national economic development, such as contributing to GDP and employment in Indonesia. In addition, MSESs also play a role in strengthening the economy in Indonesia. The results of the study found that there is a significant influence between poverty, GDP per capita, the number of MSES workers and the number of MSES companies in Indonesia. Based on the regressions in tables 1 and 2 which show that the independent variable explains the effect of the dependent variable by 99%. In addition, by using the Granger Causity test, it shows that when there is a change in the number of MSES companies, it will affect the poverty level in Indonesia. Then, there is a relationship between poverty and the number of MSES workers in Indonesia, when there is a change in the poverty rate it will affect the number of MSES workers. So it can be concluded that the level of poverty in Indonesia has a relationship with the number of MSES workers and the number of MSES companies in Indonesia. but has no relationship with GDP per capita and poverty or GDP per capita and the number of MSESs. In other words, shows that poverty alleviation is not enough to be solved only through increasing economic growth.

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