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# Analysis of the Effect of the Number of MSMEs and MSME Workers on District/Municipality Poverty in Gorontalo Province

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#### Abstract

This research aimed to dtermine the effect of the number of MSMEs and MSME workers on poverty in Gorontalo Province. The data used in this research were secondary in the form of data on 5 regencies in 1 municipality (Gorontalo Regency, Bone bolango Regency, Gorontalo Utara Regency, Boalemo Regency, Pohuwato Regency, and Gorontalo City) from 2010 to 2020 sourced from journals, articles, and government institutions such as Statistics Indonesia and Ministry of Cooperatives, SMEs, Industry, and Trade. The analysis technique used was panel data regression. The results indicated that (1) the number of MSMEs had a negative and significant effect on poverty in Gorontalo Province. It reduced the poverty rate in Gorontalo Province during the 2010-2020 period. (2) MSME workers during the 2010-2020 period had a Positive and Insignificant effect on poverty in Gorontalo Province. It means that every increase in the MSME workers by one unit increased poverty, but the increase in poverty cannot be concluded to be affected by the workers.

Keywords: MSMEs, Workers, Poverty

#### 1. Introduction

Poverty is the main problem in the State of Indonesia in economic development. For example, in the change of leadership, poverty has always been an object during the leadership period. they always carry the issue of poverty as one of their main missions. According to Sharp (2000) poverty stems from the low quality of the workforce, difficulty in accessing capital ownership, very low knowledge of technology, inefficient use of existing resources, and high population growth.

According to the Department of Cooperatives (2008) in 1998 there was an economic crisis that became history to be remembered, followed by in 2008 when inflation rates tended to be high, unemployment and poverty. in the previous year 2006 the number of poor people was estimated at around 39.05 million people, an increase of about 3.95 million people from the previous year which amounted to 35.5 million. But at that time only the MSME sector was able to show its existence compared to other business sectors. MSMEs play an important role in economic development, especially to eradicate poverty, namely by absorbing labor in their respective regions. The more the Small and

Medium Enterprises sector in an area, the more labor absorption, therefore the poverty rate in the area can be reduced.

Poverty can be one of the main problems for each region, for example in Gorontalo Province. Even Gorontalo is the fourth province with the highest number of poor people (BPS 2016). The number of poor people in Gorontalo Province can be seen in Table 1.

Wilayah	Jumlah Penduduk Miskin (Ribu Jiwa)					
Se-Provinsi	2016	2017	2018	2019	2020	
Kab. Boalemo	32,29	34,35	32,83	31,31	31,63	
Kab. Gorontalo	78,36	76,93	74,69	68.31	66,72	
Kab. Pohuwato	31,66	32,56	30,39	29,13	28.92	
Kab. Bone Bolango	27,8	27,91	27,61	25.91	25.72	
Kab. Gorul	20,65	21,67	21.09	19,46	19,56	
Kota Gorontalo	12,43	11,95	11,91	11,91	12,46	
Jumlah	203,19	205.37	198,52	156,63	185,01	

Table 1. Number of Poor People in Gorontalo Province in 2016-2020

Source: BPS Gorontalo Province, 2021

In Table 1, the number of poor people in Gorontalo Province varies each year, showing that the poor from 2016-2017 fluctuated and then continued to decline from 2018-2020. The factor that affects the prosperity of the community is the income earned by the community. Thus, per capita income can be used as a rough measure of the level of prosperity achieved by the population of a country.

One of the factors that play an important role in overcoming the problems of poverty, unemployment, and equal distribution of income is by increasing the scale of business so that its ability to create added value continues to increase. Thus, the scale of business increases and its contribution to GDP also increases. The government takes a strategy for developing the MSME sector in order to increase economic growth. But the lack of creativity, capital, technology, marketing, promotion, etc. is also an obstacle to the progress of a business. In the current era of regional autonomy, more innovative and creative efforts are needed by local governments in improving the welfare of their regions. Because realizing national development in the economic field is not only the responsibility of the central government but also local governments. The following is Table .2 regarding the Number of MSMEs and MSME Workers in Gorontalo Province in 2020.

KahrKata	Jumiah Unit UMIKM	Tenaga Kerja UMKM	
Kab. Boolemo	899	2.402	
Kab. Goruntale	3.928	11.185	
Kab. Pohewato	3.042	3.042	
Cab. Bone Bolango	2.810		
Kab. Gorut	687	1.534	
Kota Gorontalo	3.519	7,700	
Jundah	14.925	.12.844	

 Table 2. Number of MSMEs and MSME Workers in Gorontalo Province in 2020

Source: Ministry of Industry and Trade, 2021

The existence of MSMEs certainly contributes significantly to improving the economy in Gorontalo Province, in this case the large number of MSMEs in Gorontalo Province certainly plays a very important role in absorbing workers while reducing unemployment, the businesses they build absorb workers in their respective regions. The more the number of business units, the more labor is needed. So it can be concluded that the number of MSME units has an influence on employment. This is very helpful for the government in Gorontalo Province in overcoming the problem of unemployment and reducing poverty.

# 2. Literature Review and Hypotheses

Poverty can be defined as the inability to participate in society economically. According to the World Bank, one of the causes of poverty is the lack of income and assets to meet basic needs such as food, clothing, housing, health and education levels. In addition, limited employment opportunities are one of the causes of poverty. Usually someone who does not have a job or in this case is unemployed can be categorized as poor. Apart from that, inadequate levels of health and education are also causes of unemployment which results in poverty. The problem of unemployment, health, education, and other problems are closely related explicitly to poverty, therefore solving the problem cannot be separated.

According to Todaro and Smith (2011) there are several factors in Indonesia caused by poverty including: (1) low income levels, (2) slow economic growth rate, (3) uneven income distribution, (4) health facilities and services. limited services, (5) and educational facilities are still inadequate.

In general, poverty that arises can be seen from changes in work patterns from the agrarian sector to the industrial sector which results in job specialization. Not only that, the poverty factor is also caused by the low level of knowledge about life skills, therefore a person must have life skills to get a job that is in accordance with his abilities (comparable).

According to Vankatesh (2012:793) that two-thirds of the business world in the world are MSMEs and the largest number is in the regions, MSMEs are able to create many jobs with little capital and MSMEs are spread to remote areas and as one of poverty alleviation efforts. MSMEs have an important role, namely as a provider of employment for the majority, namely people with low education.

According to Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs): (1) Micro Enterprises are productive businesses owned by individuals or individual business entities that meet the criteria for Micro Enterprises as regulated in this Law. (2) Small Business is a business that has 5 to 19 employees, or has a net turnover of at most Rp.200,000,000-Rp.600,000,000 (excluding land and buildings). (3) Medium Enterprises are economic businesses that are self-established by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, where the annual turnover is at most Rp. 200,000,000 - Rp. 10,000,000 (excluding land). and buildings) with a workforce of 20 to 99 people.

According to the basic Manpower Act No. 14 of 1969, people who are able to do work both inside and outside the work bond to produce goods and services to satisfy consumer needs are called labor. According to Law No. 3 of 2003 concerning employment, a person who produces goods and services in order to meet personal needs and other community needs. According to the Central Statistics Agency (BPS), the workforce is people aged 15 years and over who worked in the previous week, temporarily absent from work but have work and those who do not have a job and are looking for work. According to Ignatia Rohana Sitanggang and Nachrowin Djalal (2004) there are 2 definitions of labor: (1) Labor is usually found in the labor market and is also ready to be utilized in the process of producing goods and services. This can be useful for a company to ask for workers from the labor market, if the work done is in accordance with the company's wishes, they will get a reward in the form of wages/salaries. (2) Every company really needs skilled workers whose goal is to achieve a desired goal. The size of the workforce can potentially rely on human resources, but the problem can also affect various sectors.

Sitanggang and Nachrowi (2004), argue that labor is part of the population who can produce goods and services if there is a demand for goods and services. Labor classification is a systematic arrangement or group according to specified standards. There are several classifications of labor including: (1) All residents who are considered to be able to work are those aged 15-64 years. (2) Non-

labor, namely those who are considered unable and unwilling to work. According to the Labor Law no. 13 of 2003, the population outside the age of those aged under 15 years and over 64 years. (3) The labor force is the productive age population aged 15-64 years who already have a job or are looking for work. (4) Non-Work Forces are those aged 0-14 years whose activities are actively attending school and so on.

# Hypothesis

Based on the description above, the hypotheses developed in this study are:

H<sub>1</sub>: the number of MSMEs and MSME Workers has a positive effect on Regency/City Poverty in Gorontalo Province.

H<sub>2</sub>: the number of MSMEs has a negative effect on Regency/City Poverty in Gorontalo Province.

# 3. Methods

This study uses quantitative data from secondary data obtained from the Central Statistics Agency (BPS) and related agencies with the dependent variable, namely poverty, and the independent variable, namely the number of MSMEs and labor.

Data collection techniques are systematic and standard procedures in order to have a technical function in facilitating researchers to collect data in such a way. The method used in this research is literature study data as a data collection method to support a theory so that no sampling and questionnaire techniques are needed. To support the data, data were also obtained from journals, articles and government institutions such as BPS and the Department of Cooperatives, UMKM, Industry and Trade, and other sources related to the number of UMKM, UMKM Manpower and Poverty.

To determine the effect of the number of MSMEs and MSME workforce, a quantitative analysis method is used, namely by using panel data, which is a combination of time series (time series) and cross section. Time series in the form of the number of MSMEs, MSME workers, and poverty data. Meanwhile, the cross section is in the form of district/city data in Gorontalo Province.

In general, the advantages obtained by using panel data are: (1) Panel data which is a combination of two time series and cross section data is able to provide more data so that it will produce a greater degree of freedom. (2) By combining time series and cross section information and data, it can overcome the problems that arise, namely the problem of eliminating variables (omitted-variables).

For quantitative data processing, this research uses software eviews. Eviews software is one of the software that provides data analysis, regression and prediction tools that are shophisticated based on windows. Statistical requirements that must be met in multiple linear regression analysis are classical assumption tests, including the multicollinearity test, heteroscedasticity test, normality test and autocorrelation test. The following is a description of each of these tests.

# 4. Results

This study aims to answer the formulation of the problem and research hypotheses in the form of estimating the equation regression model that has been formed in the previous chapter. The results of this study cannot state the complete condition of the object of research because this study is only able to reject and accept the hypothesis, describe it in statistical form, test it in the form of a hypothesis.

Based on the estimation using Fixed effect mode, the empirical model obtained is as follows Table 1. Based on the estimation results above, the research model becomes:

(POV) = 16.16726 - 0.021794 (PP) +0.011478 (TK)

The interpretation of the estimated output model above can be described as follows: (1) Poverty without being influenced by any independent variables in the research model will be worth -3.510387 Million Rupiah. (2) The number of MSMEs has a negative effect on poverty. So it can be explained that an increase in 1 MSME will reduce poverty by 0.021794 percent. (3) MSME workforce has a positive effect

on poverty. So it can be explained that an increase in 1 MSME workforce will increase poverty by 0.011478 percent.

Dependent Variable: Method: Pooled EGL Cross-sections includ Total pool (balanced) Linear estimation afte	.S (Cross-secti led: 6 ) observations	66	x	
Variable	Coefficient	and the second	t-Statistic	Prob.
С	16.16726	4.738682	3.411763	0.0012***
PP?	-0.021794	0.004397	-4.956475	0.0000+++
TK?	0.011478	0.001624	7.067993	0.1260 <sup>±5</sup>
R-squared	0.508409	Mean dependent var		32.76749
Adjusted R-squared	0.449079	S.D. dependent var		20.87508
S.E. of regression	15.36509	Sum squared resid		13692.99
F-statistic	8.569173	Durbin-Watson stat		1.705144
Prob(F-statistic)	0.0000000***	•		

Kenerangan (\*\*\*) ngrafikan di 1944an \*\*) ngrafikan di 5% \*) Sografikan 10%.

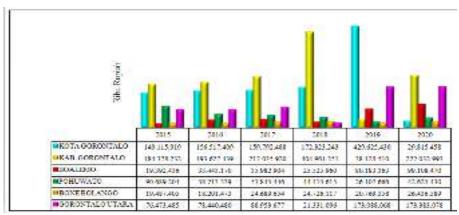
# 5. Discussion

## The Influence of the Number of MSMEs on Regional Poverty in Gorontalo Province

From the results of the regression analysis of the above equation which states that the number of MSMEs has a negative effect and can explain significantly the reduction in poverty during the 2010-2020 period. This means that every increase in the number of MSMEs will reduce poverty in Gorontalo Province.

This is because small and medium enterprises (SMEs) play a strategic role in the regional economy of Gorontalo province because they are directly related to the community. The existence of SMEs leads to the development of other sectors. More small businesses can create more jobs, increasing people's income. Income that increases purchasing power also increases, thereby improving the local economy. In this way, people's standard of living increases, which in turn reduces the number of poor people.

The province of Gorontalo which consists of 5 regencies and 1 city has a different number of MSMEs in terms of the quality and quantity of their production. This is evidenced by data taken from the Gorontalo Province UMKM Office on the production value owned by the district/city.



Source: Gorontalo Province UMKM Office, 2021 **Figure 1.** District/City MSME Production Value Gorontalo Province 2015-2020

Based on the picture above, it is explained that the difference in production value in each district/city in Gorontalo province has not been stable in the last 5 years. Production value is the result of production or the total number of goods produced by an MSME. Fluctuations in market demand for MSME products will affect the increase in MSME product demand, so that it will increase its production

capacity. For this purpose, MSME owners increase the utilization of their employees or increase their workforce so that they can increase the amount of production (Putra, 2012).

However, Gorontalo province must be aware of the nature of Gorontalo SMEs, this is because Gorontalo Province SMEs still rely on agricultural raw materials with minimal industrial processing. As a result, the added value of the product is low, and if you want to enter the domestic and foreign markets, you cannot compete. Entrepreneurial activities or MSMEs that use innovation to develop their business in Gorontalo are quite good in capacity and number, because there is no planned and systematic effort to generate MSME productivity growth. According to Mopangga (2015) it is clear that MSME innovation based on the use and management of technology can slow down the process of adding labor, transferring knowledge and managerial skills, as well as efficiency and utilization of the circulation of funds that compete with technological advances.

The results of this study are in line with research conducted by Widodo and Purwanto (2019) which explains that the number of MSMEs has a negative effect on poverty. Furthermore, this research is also in line with research conducted by Anugerah and Nuraini (2021) which explains the role of MSMEs as seen from the entrepreneurial variable giving a negative and significant impact on poverty.

## The Influence of MSME Workers on Regional Poverty in Gorontalo Province

From the results of the regression analysis of the above equation which states that the MSME workforce has a positive effect and cannot be explained significantly to the increase in poverty during the 2010-2020 period. This means that every increase in the MSME workforce will increase poverty in Gorontalo Province but cannot clearly explain the increase.

Why is this so, this phenomenon is due to the fact that excess labor in one area will have an unfavorable impact on poverty in other areas, this is in line with data from the UMKM service which explains that the distribution of labor in each region in the province of Gorontalo is different. This spread is because the workforce migrates and looks for areas that have a higher wage rate than their original area. So that in this case the workforce in the area of origin will experience a shortage and as a result production from the area of origin will decrease (Subandi, 2016).

In the case of labor, it greatly affects the amount of production, this is because in every economic activity it is necessary to produce and distribute goods and services produced in an area. From these production results, workers get wages/salaries so that indirectly this will have implications for fulfilling their living needs. Workers who receive these wages will spend part/all of their wages for consumption, investment, health, and partly saved for savings. So that in terms of the role of the workforce given to the poverty rate, it is relatively low, as Windia (2015) said at a macro level, poverty is based on the assumption that the poor can be identified based on equipment (infrastructure), road conditions, traffic access, health, education and circumstances. Economic and social factors that influence a good life. Local residents have realized that poor local infrastructure can reduce the quality of life of the people living in the area. So, although the active working population (Labour) increases, poverty persists.

In the context of labor, it has a positive and significant effect on poverty, which means that every increase in labor will increase the number of poor people. This is based on the productive age of the population and the number of working age poor who dominate the rural poor, mainly because they work in the MSME sector in the agricultural sector, and in rural areas with lower education levels. This is not necessary in the informal sector, especially in the educated workforce, and shows that the workforce in MSMEs cannot influence the poor.

According to Setiawati (2017) explained that the workforce can be seen not only in terms of productivity, but also in terms of gender. Women are more likely to work than men. Because many women choose non-working groups, including housewives. Given that many women choose not to enter the labor market, the SME workforce has little or no impact on poverty.

The results of this study are in line with research conducted by Setiawati (2017) which states that labor has a positive and insignificant effect on poverty.

# 6. Conclusion and Suggestions

# Conclusion

Based on the results and discussions that have been described in the previous chapter regarding the influence of the number of MSMEs and MSME Workers on poverty, the researchers can draw conclusions, among others: (1) The number of MSMEs has a negative and significant effect on poverty in Gorontalo Province. This means that every increase in the number of MSMEs in the Regency/City in Gorontalo Province will actually be able to reduce the poverty rate in Gorontalo Province during the 2010-2020 period. (2) MSME workers during the 2010-2020 period had a positive and insignificant effect on poverty in Gorontalo Province. This means that every one unit increase in the MSME workforce will increase poverty, but the increase in poverty cannot be concluded that it is the workforce that affects it.

## Suggestions

Based on the results of the research, discussion and conclusions above, the researchers provide suggestions in efforts to alleviate poverty in the province of Gorontalo, including: (1) Small and medium enterprises (MSMEs) are the foundation for the income of a region. Therefore, the government needs to pay more attention to SME research, especially in the financial sector. In order to increase the productivity of Gorontalo SMEs, MSME owners provide training to their workforce in an effort to increase the added value of production so that they are able to compete in domestic and foreign markets. (2) MSME owners should be selective in financing operational costs and be more stringent in feasibility studies in utilizing technology so that they can reduce the less productive workforce in their MSMEs.References

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