

The Effect of MSMEs Growth on the Open Unemployment Rate in West Java Province

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Abstract. One of Indonesia's national development plans is held in order to realize efforts to improve people's welfare. People's businesses that have the largest contribution as an important pillar in economic growth in Indonesia are Micro, Small and Medium Enterprises (MSMEs). This sector business has a role in supporting the economy and is able to survive in any situation, as evidenced by the 1998 monetary crisis. The purpose of this study is to analyze the effect of MSME growth on the decline in the open unemployment rate in West Java. The method used is explanatory research with data analysis techniques using panel data regression analysis. The data used is panel data of 7 cities in West Java Province in the period 2012 to 2019. The results obtained are that there is a significant negative effect between the growth of MSMEs on the open unemployment rate in West Java Province. The results obtained are expected to be used in an effort to reduce the unemployment rate in West Java Province by conducting training so that the quality of human resources for MSME actors in West Java Province increases.

Keywords: MSMEs, The Open Unemployment

1 Introduction

Indonesia's national development planning is carried out in order to realize efforts to increase economic growth and community welfare. In this case, the community is involved as a form of mapping the planning environment known as the people's economy, which implies a participatory economic system that provides as much access as possible in a fair and equitable manner for all levels of society in the process of production, distribution and national consumption as well as increasing capacity and empowerment. society, in order to realize equitable prosperity for all Indonesian people in a sustainable manner.

People's businesses that have the largest contribution as an important pillar in economic growth in Indonesia are Micro, Small and Medium Enterprises (MSMEs). This sector business has a role in supporting the economy and is able to survive in any situation, as evidenced by the 1998 monetary crisis. In addition, MSMEs have an important role in creating jobs for the welfare of the community so that they can be used in alleviating poverty. This is reinforced by the results of researchers Tambunan (2012, p.1), Anoraga (2010, p.32), Rizal et al (2017, p. 47), Hafni and Rozali (2015, p.95), Fauziah (2019, p. 144), Primatami and Hadayati (2019, p.204), Ikbal et al (2018, p. 35), Katua (2014, p.468) conducted research in Kenya, Al Hadad (2019, p.184) in Pakistan and Al -Tamimi (2019, p. 36) in Jordan. Previous researchers Anugerah and

Nuraini (2021) conducted research in East Java, Widowati and Purwanto (2018, p. 388), Nursini (2020, p. 153) in Indonesia and Ali et al (2014, p. 67) in Pakistan.

In general, MSMEs have roles as: (1) the main actors in economic activities, (2) absorbers of the workforce, (3) local economic development and community empowerment, (4) creating new markets and innovations, (5) contributing to the balance of payments (Kadeni and Sirjani, 2020). Based on this role, it is necessary to develop a planned, structured and sustainable way to increase productivity, competitiveness and grow new entrepreneurs in the hope of improving the welfare of the Indonesian people. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises, the growth of the MSME sector in Indonesia has increased every year. Growth data are presented in Table 1.

Table 1. Number and Growth of Indonesian MSMEs in 2012 to 2019

Year	Number of MSMEs	MSMEs Growth
2012	56534592	2,41
2013	57895721	2,41
2014	57900000	0,01
2015	59300000	2,42
2016	61700000	4,05
2017	62900000	1,94
2018	64200000	2,07
2019	67400000	4,98

Source: Ministry of Cooperatives and Small and Medium Enterprises

In 2012 and 2013, MSMEs grew by 2.41% while in 2014 it was 0.01%. In 2015, it grew by 2.42% and increased in 2016 by 4.05% and grew again by 1.94%, 2.07%, 4.98%. The increasing development of the MSME sector has contributed to economic growth because it can absorb employment. Contribution data are presented in Table 2.

Table 2. Contribution of MSMEs to Economic Growth and Employment in Indonesia

Year	Economic Growth (%)	Employment (%)
2012	57,60	97,24
2013	57,48	97,16
2014	57,56	96,99
2015	57,75	96,71
2016	60,34	97,22
2017	57,08	97,00
2018	60,34	97,00
2019	57,14	96,92

Source: BPS

According to Table 2, the average contribution of MSMEs to the creation of economic growth in 2012 to 2019 is 58.2%. The highest contribution occurred in 2016 and 2018 of 60.34%. Meanwhile, the average contribution to employment is 97.03% of the total workforce, the highest in 2012 was 97.24% and the lowest in 2019 was 96.92%. Table 1.1 shows that the existence of MSMEs is able to improve people's welfare even though it has not been able to increase Gross Domestic Product (GDP) optimally, due to facing various obstacles, namely: (1) Incompetent Human Resources (HR) potential, (2) Lack of productive resources, raw materials, information, knowledge, skills and technology, (3) High transaction costs.

Based on the description above, it can be concluded that the growth of MSMEs has a negative effect on the open unemployment rate, but each region of Indonesia has different characteristics. Therefore, the study only discusses the effect of MSME growth on the open unemployment rate in West Java Province.

2 Literature Review

MSMEs Growth

Micro, Small and Medium Enterprises (MSMEs) are productive business units established by individuals or business entities in various economic sectors (Tambunan 2012, p.11). The criteria for SMEs are as follows:

- a. Micro-enterprises have a maximum asset of Rp. 50 million excluding land and business buildings, the maximum sale proceeds is Rp. 300 million and has a maximum net turnover of Rp. 30 million per year is called micro-enterprise.
- b. Small businesses have asset values in the range of Rp. 50 million to Rp. 500 million and excluding land and buildings, sales are in the range of Rp. 300 million to Rp. 5 billion.
- c. Medium-sized businesses have net worth in the range of Rp. 500 million up to Rp. 10 billion and net turnover is in the range of Rp. 2.5 billion to Rp. 50 billion.

The definition of MSME provided by BPS is based on the number of employees. Small businesses have 5 to 19 employees, while medium businesses have 20 to 19 employees. 99. Meanwhile, Bank Indonesia explained that MSMEs are businesses that have a maximum capital of Rp. 20 million, the funds needed Rp. 5 million for one round, Maximum assets owned Rp. 600 million excluding land and buildings, and a maximum annual turnover of Rp. 1 billion.

According to (Halim, 2004, p.163) growth using the formula:

$$P = \frac{L_t - L_{t-1}}{L_{t-1}} \times 100\% \quad (1)$$

Where as:

P : MSMEs Growth

L_t : Number of MSMEs in t th year

L_{t-1} : Number of MSMEs before t th year

Based on Ngalim's opinion (2004, p.163), MSME growth is the difference between the number of MSMEs in the current year and the previous year divided by the number of MSMEs in the previous year.

Open Unemployment Rate

According to Sukirno (2004, p.28), unemployment is the number of workers in the economy who are actively looking for work but have not yet found one. Meanwhile, Nanga (2005, h:249) states that unemployment is a condition where a person belonging to the labor force does not have a job and is not actively looking for work. The cause of the decline in living standards and psychological stress is unemployment (Mankiw 2006, p.154). Rahardja and Manurung (2004, p.329) state that unemployment is the labor force and aged 15 to 64 years who are looking for work.

In contrast to the two opinions above, according to Muhdar (2015: 45), unemployment is the workforce and wants to get a job. Meanwhile, Sukirno (2006, p.10) states that someone who does not have a job is called unemployed. According to Mankiw (2007, p. 155) the unemployment rate is calculated from the proportion of the number of unemployed and the total

labor force expressed in percent. Unemployment reduces consumption spending due to a lack of income.

Unemployment that lasts for a long time causes psychological effects that are not good, besides that it also creates security and social and has an impact on economic development and a decline in economic growth. The cause of unemployment is due to the increasing number of people who are not supported by the availability of jobs or can be caused by someone's laziness to find work. Based on the opinion of the experts above, unemployment is the labor force and wants a job but has not been able to get it. In this study, the variable used is the open unemployment rate which is defined as the labor force and wants to get a job but has not been able to get it.

3 Research Methods

The data used in this study is secondary data on the growth of MSMEs and the open unemployment rate obtained from BPS West Java, while the sample of this study is 7 cities in West Java Province, namely Bandung, Bekasi, Bogor, Cirebon, Depok, Sukabumi and Tasikmalaya in the period 2012 to 2019. The data analysis techniques used in this study were inferential statistics and regression analysis. The following is a description of the tests carried out.

Stationary Test

Stationary test using the method of Levin, Lin & Chu t. The criteria are, if the probability value of Levin, Lin & Chu t. < 0.05 then the data is stationary.

Model Formulation

There are three approaches in calculating the panel data model namely the Common Effect Model, Fixed Effect Model and random effect model. The model suitability test was carried out with the help of Eviews 11. The descriptions are as follows:

Test Chow

If the probability value is more than or equal to 0.05, it means that CEM will be selected. Meanwhile, if the probability value is less than 0.05, it means that FEM will be selected.

Lagrange Multiplier Test

If the probability value is more than or equal to 0.05 then CEM will be selected, otherwise if it is less than 0.05 then REM will be selected.

Hausman test

If the probability value is more than or equal to 0.05 then H_0 is accepted, meaning that REM will be used. The opposite of this, that is, if the probability value is less than 0.05 then FEM will be chosen.

Hypothesis Test

The following is a description of the hypothesis testing carried out in this study:

Coefficient of Determination

The value of the coefficient of determination (R^2) is used to measure the contribution of the independent variable to the dependent variable. The coefficient of determination is shown

by the calculation of the R value adjusted square, if the value of the coefficient of determination is close to one, the correlation between the two variables is categorized as good.

F test

F-statistical test is used to determine the effect of independent variables on the dependent variable together. If $\text{Prob}(F\text{-statistic}) < \alpha$, then rejected H_0 , it means independence variable affect FDI.

t test

The t-statistic test was conducted to test whether the independent variable partially affected the dependent variable. If the value $\text{sig} < 0,05$, then we can be concluded that the independent variable partially affects the independent variable.

4 Results and Discussion

Result

a. Stasionary Test

Based on the results of calculations using the Levin, Lin and Ch. it was found that the growth variables of UMKM and TPT were stationary at level 0, with a probability value of both variables 0.000.

b. Formulasi Model

Based on the Chow, Lagrange Multiplier and Hausman tests, it is concluded that the best model for modeling the existing data is the Random Effect Model, while the model formulation is as follows:

$$i. \ln(\hat{Z}_{1it}) = 3,574777 - 1,124011 \ln(\hat{Y}_{it}) \quad (2)$$

The interpretation of equation (2) is:

The constant value is 3.574777, which means that statistically if there is no MSME growth variable, the TPT will be worth 3.574777.

The coefficient value of $\ln(\hat{Y}_{it})$ of $-1,124011$ means that statistically, the increase in the MSME growth rate variable is elasticity to TPT.

c. Hypothesis Test

Based on the results of the calculation, it was found that there was a significant negative effect between the growth of MSMEs on TPT in West Java Province. Based on the results of the regression calculation, it was obtained that the R Squared value was 0.581994. This value means that the magnitude of the effect of economic growth on poverty is 58.1994% and the rest is influenced by other variables outside the model studied.

Discussion

Based on the hypothesis test, it can be concluded that the growth of MSMEs contributes to the reduction of the Permanent Unemployment Rate (TPT). The higher the growth of MSMEs, the higher the reduction in TPT. This is in accordance with Tambunan (2012, p.1), Anoraga (2010, p.32) and (Rizal et al. 2017, p. 47), Hafni and Rozali (2015, p.95), Fauziah (2019, p.144). Primatami and Hadayati (2019, p.204), Ikbali et al (2018, p. 35), Katua (2014, p.468) conducted research in Kenya, Al Hadad (2019, p.184) in Pakistan and Al- Tamimi (2019, p. 36) in Jordan. Previous researchers Anugerah and Nuraini (2021) conducted research in East Java, Widowati and Purwanto (2018, p.388), Hodijah and Mustika (2020, p.287), Nursini (2020, p.153) in Indonesia and Ali et al (2014, p. 67) in Pakistan. MSMEs are a good forum for job creation, because they do not require higher education requirements and specific skills. In theory of

development economics, a high rate of economic growth supported by growth in the industrial sector will encourage increased demand for labor which in turn will expand job opportunities. In this study, the reduction of the workforce can be done by empowering MSMEs properly

5 Conclusion

Based on the explanation in the previous sub-chapter, it can be concluded that there is a negative influence between the growth of MSMEs and TPT in West Java Province. With the results obtained, it is hoped that the government in an effort to reduce the unemployment rate in West Java Province will conduct training so that the quality of human resources for MSME actors in West Java Province increases.

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