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The Impact Of Special Allocation Funds (SAF) on The Development Micro Small Enterprises (MSEs) in Indonesia

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ABSTRACT

Micro Small Enterprises (MSEs) have an essential role in increasing the capacity of the national economy, contributing to employment, and increasing people's income. However, MSEs need help with significant problems, namely access to finance and capital, technology in the production process, human resource capacity, and marketing. This study aims to explore empirically related to the impact of the flow of Special Allocation Funds (SAF) on the development of micro and small enterprises in Indonesia. The research objectives covered 32 provinces. The data used secondary data collected from 3 (three) sources, consisting of the data on the value of SAF obtained from The Ministry of Finance of the Republic of Indonesia, the data on the number MSEs received from the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, and the data of GRDP, number of population obtained of Central Bureau of Statistics. This research is a quantitative approach. The Method of analysis used the econometric model, namely the panel regression model, which is a regression that combines time series data (t = 7) and cross-section (i = 32) of the Specification model using the Chow and Hausman test. Based on the fixed effect model (FEM) showed that SAF from the central government to regional governments can significantly develop MSEs in Indonesia. Implies that the programs/activities proposed by the Local Government with SAF funding significantly increase MSEs. Therefore monitoring and evaluation of programs that use SAF funding to improve MSEs must be carried out so that the role of MSEs is getting higher in national/regional development.

1. Introduction

Micro Small Enterprises (MSEs) have become one of the main areas of concern to many policymakers as a growth-supporting sector that contributes to the national economy. Its great potential in driving community economic activities has encouraged the formation of substantial local capital and achieved high productivity of MSEs (Essien et al., 2016; Kusumawardhani et al., 2015). MSEs are the most players in domestic economic activities in Indonesia, especially as job providers, and become the main/primary or secondary source of income for most households in improving their welfare (Ariani & Utomo, 2017; Tambunan, 2019). The characteristics of MSEs tend to be labor-intensive and free to enter and exit, thus enabling MSEs to become a medium for creating new entrepreneurs and providing job opportunities. Besides, it does not require a diploma educational background; the MSEs can be a solution to overcome unemployment (Kartika, 2019). Various MSEs activities spread throughout Indonesia, with company ownership tending to be individual, family, or community (Akehurst, Simarro, & Mas-Tur, 2012; Brush & Cooper, 2012). In general, the scope of activities of MSEs is traditional and related to local culture, including making batik, antiques, handicrafts, making herbal medicines, food, souvenirs supporting tourism, and many more. The government has to pay more attention to micro and small businesses; this sector is seen as an essential contributor in the transition to a market economy through creativity, encouraging technological progress, innovation, and organizational change (Zamberi Ahmad, 2012).

MSEs have a significant role in the economy in developed and developing countries, where MSEs tend to grow sustainably (Ntiamoah et al., 2016). MSEs have advantages over large companies, including absorbing productive resources at all economic levels (Roopchund, 2020), being more flexible, and adapting to the market environment. In human resources, MSEs tend to be more labor-intensive, making it possible to create many job opportunities. Besides that, MSEs can spread quickly and widely throughout the region, not concentrated in certain areas, so it encourages an even distribution of MSEs businesses. Along with the rapid spread of MSEs, it will accelerate the creation of entrepreneurship and business skills; we can say MSEs as crucial actors in the development of a country (Bruhn et al., 2018; Erdin & Ozkaya, 2020; Essien et al., 2016; Maleka & Fatoki, 2016; Tambunan, 2019).

Based on published data from the Ministry of Cooperatives and MSMEs, empirically, the development of the number of MSE units throughout Indonesia has increased very quickly, especially in 2017-2019. In 2019 MSEs in Indonesia totaled 65,400,031 business units, with a total industrial sector GDP of 15,832.535 trillion Rupiah. The contribution of MSEs to the industrial sector's GDP was 46.88%, while Medium Enterprises and Large Enterprises contributed 53.12% to the industrial sector's GDP. The number of workers absorbed in the MSEs sector was 115,772,701 people or 93.84% of all employment opportunities in the industrial sector. In contrast, the workforce absorbed by medium and large businesses was only 6.15%. Suppose it assumed that the number of micro-small companies represents individuals as a proportion of the total population in Indonesia who are over 15 years old. In that case, the proportion of individuals who work in micro-small businesses is around 24.4% (Kemenkop, 2022). Nearly 25% of the population over 15 years rely on micro and small businesses for their livelihood, so the government pays great attention to micro and small businesses.

Although empirically, MSEs are one of the spearheads for fighting poverty and unemployment. However, many researchers conclude that the development of MSEs faces many problems. Maleka & Fatoki (2016) in their study explained that the MSEs failure rate is very high in South Africa, and many MSEs need access to funding from commercial banks. This mean indicates a market failure in providing financing for MSEs. Kusumawardhani et al. (2015); Peters and Naicker (2013) in their study explained that MSEs in Indonesia face several

problems, including low access to capital, lack of infrastructure, limited human resource capacity, and often unable to reach scale. Economy, low skill levels, lack of access to information, and inadequate support institutions. These constraints hindered MSEs in developing their business.

The vital role of MSEs in job creation and regional economic growth, the development of MSEs requires significant state support and direct support and intervention, encouraging the economic development of the region concerned. However, the implementation is not easy because it requires high commitment from the government, consistent and long term. Therefore making MSEs an essential part of the development strategy is one way to encourage the development of MSEs (Bhinekawati, 2016). In many countries, several implementations of policies to develop MSEs, including tax reduction and exemption, fiscal funding assistance, and facilitating requirements for accessing loans from financial institutions. Government investment through the development of basic infrastructure also contributes to developing MSEs, for example, electricity, clean water, roads, ports, industrial areas, telecommunications and internet, transportation, communication facilities, water supply, fuel supply, and public services (Nguyen & Wongsurawat, 2012). Government support is vital in developing MSEs; lack of proper government support for MSEs, and many small businesses fail to establish (Rankhumise & Masilo, 2017). Some policies the Government of Indonesia implements in developing MSEs include tax policies, banking interest rates, funding, and partnerships. Besides that, the government is rolling out funds as balancing funds, namely Special Allocation Funds allocated to regions to provide the infrastructure that encourages the development of micro and small businesses. Government policies in the form of Special Allocation Funds (SAF) flow can help stimulate the expansion of MSEs in number and scale (Nguyen & Wongsurawat, 2012).

Research on the impact of government interventions on the development of MSEs continues to interest researchers. Yuniarta et al. (2019) concluded that government policies significantly influenced the competitiveness of micro, small, and medium enterprises in Indonesia. Jibrilla (2013) researched the effect of government intervention on the development of small businesses in Nigeria, and his research used a qualitative method, namely the Chi-Square Method. The findings show that government intervention has not significantly impacted Small Scale Enterprises (SSEs) in the Mubi region of northern Nigeria. Essien et al. (2016) conducted a study on the effect of government spending on developing small and medium enterprises. Small and medium enterprises are measured based on the output value of the MSEs per year, while government spending is calculated based on the total government expenditure per year. The results of his study concluded that government spending has a significant favorable influence on the development of small and medium enterprises. Kartika (2019), In her research using government intervention indicators, expenditure on public services. The Method uses the panel data regression and found that improving public services significantly positively affected the development of micro and small businesses in Indonesia. (Park et al., 2020) studied indicators of government intervention in Public Loan Financing. The results show that government-based diagnostic and support services combined with public loan financing effectively enhance the Korean SMEs' annual assets and sales growth. (Prasetyo, 2020) researched the effect of government spending on MSE growth. The results show that government spending has a positive influence on MSE growth. Previous research, which is the primary reference for this research, is presented in Table 1.

Table 1. Previous study the role of government intervention on MSEs

Author	Title	Indicator of Government Intervention	Methodology	Statistics Result
(Essien et al., 2016)	Impact Of Government Spending On Small And Medium-Scale Businesses In Nigeria	Aggregate Government Expenditure	The Autoregressive Distributed Lag (ARDL)	public expenditure positively affects SMEs' output and productivity.
(Kartika, 2019)	Public Service and Micro-Small Enterprise Developments in Indonesia	Regional Public Service	Panel Data	Public service positively affects the MSEs development in Indonesia
(Park et al., 2020)	Government support and small- and medium-sized enterprise (SME) performance: the moderating effects of diagnostic and support services	Public Loan Financing	Probit Regression Models	government support services combined with public loan financing are effective in enhancing the Korean SMEs.'
(Prasetyo, 2020)	The Role of Government Expenditure and Investment for MSME Growth: Empirical Study in Indonesia	Level Of Government Expenditure	OLS Method	Government expenditure has a positive and significant contribution to small enterprises.

Previous researchers tended to analyze the impact of Special Allocation Funds (SAF) on macroeconomic indicators such as economic growth, poverty, or inter-regional disparities. Because the authors conducted research on the effects of Special Allocation Funds (SAF) flows on the development of MSEs, firstly, as a novelty in the Special Allocation Funds (SAF) analysis related to the development of MSEs, it is also possible that not all MSEs will benefit from special allocation funds (SAF) implementation policies in the regions. Previous researchers tended to analyze the impact of the Special Allocation Fund (SAF) on macroeconomic indicators such as economic growth, poverty, or disparities between regions. Meanwhile, research on the effect of government spending on SMEs tends to use government spending as routine spending. Therefore, the authors researched the impact of the flow of Special Allocation Funds (SAF) on the development of MSEs as a novelty in the analysis of Special Allocation Funds (SAF) related to the development of MSEs. Not all MSEs will benefit from the policy of implementing special allocation funds (SAF) in the regions because the distribution of SAF is based on the region. Therefore, the author wants to test whether the Special Allocation Funds (SAF) flow impacts the development of MSEs in Indonesia.

2. Method

2.1. Research Design

The study refers to the primary literature on previous studies (Ntiamoah et al., 2016; Essien et al., 2016; Kartika, 2019; Park et al., 2020; Prasetyo, 2020) related to the impact of government spending on the flow of MSEs development in Indonesia. This study used government spending in the context of special allocation funds (SAF). Other factors consist of population, education, inflation rate, and economic growth that influence the development of MSEs, and in the model, act as a control variable. The gross regional domestic product and the level of education used as an indicator of the mean years of schooling represent economic growth. In this study, these factors became control variables. The research examines how special allocation funds (SAF) impact the development of MSEs. We will discuss the implications for developing MSEs in Indonesia based on the test results.

2.2. Data

The data type used is panel data (pooled data) which combines cross-sectional and time series data. The cross-section data covers 32 provinces in Indonesia (N=32), while the time series data covers 2013-2019 (T=7). The data collected includes the number of micro and small enterprises by province, population by gender, mean years of schooling, inflation rate, provincial Gross Dometic Regional Product (GRDP), and Special Allocation Fund data by province.

The research used secondary data, the data of population by gender, mean years of schooling, inflation rate, and Gross Regional Domestic Product (GRDP) collected through the Central Statistics Agency (BPS, 2022). The number of MSEs data was received on the Ministry of Cooperatives and medium small enterprises website. The data on special allocation funds (SAF) by province were obtained from the Decrees of the Minister of Finance of the Republic of Indonesia for various years, containing details of special allocation funds for all districts/cities and provinces in Indonesia for 2013-2019.

2.3. Analysis Method

The analytical Method used in this research is the panel data econometric regression model. This model can answer the research objectives for data that combine cross-section data and time series data. Panel data analysis has several advantages. Data is more informative, varied, and efficient; it can avoid multicollinearity problems, study dynamic changes, and better measure effects that cannot be observed on pure cross-section data or time series. Observation data becomes much more than when using only cross-sectional or only time series data and can minimize the bias that can occur when aggregating individuals into broad aggregates.

Panel data regression consists of three models, namely the standard effect model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The standard effect model (CEM) or pooled least square (PLS) is the most straightforward technique, estimation by combining time series and cross-section data without regard to differences between time and between individuals. In this approach, the estimation model uses the OLS method. The fixed effect model (FEM) assumes that the regression equation's intercept and slope are constant between cross-section and time series units. The most common approach is to allow the intercept to vary between unit cross-sections but still assume that the slope of the coefficient is constant between unit cross-sections. The Random Effects Model (REM) assumes that errors are random; estimates use the Generalized Least Square (GLS) method.

The selection of an efficient and reliable method uses the model specification tests, namely the Hausman and Chow tests. The test is to select the most appropriate model, whether the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The Chow test is to determine whether the FEM model is better than the CEM model if the Probability of Cross-section Chi-square < 0.05, then the Fixed Effect Model (FEM) is better than the Common Effect Model (CEM), conversely if the value is> 0.05. The Common Effect Model (CEM) is better than the Fixed Effect Model (FEM). At the same time, the Hausman test chooses whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is better or vice versa. The Hausman test statistic follows the Chi-Square statistical distribution with k degrees of freedom; the value of k is a number that indicates the number of independent variables. Suppose the statistical significance is greater than the critical value. In that case, the correct model is the Fixed Effect model (FEM). In contrast, the suitable model is the Random Effect Model (REM) if the Hausman statistical value is less than the critical value.

The estimated model refers to the results of research that have been conducted by (Essien et al., 2016; Kartika, 2019b) with the following estimation model:

$$MSEs = f(SAF_{t-2}, PFM, EDU, INF, GRDP)$$

The formulation of the panel regression equation model is as follows:

$$Log\ MSEs_{it} = \beta_{0i} + \beta_1 Log\ SAFt\_2_{it} + \beta_2 PFM_{it} + \beta_3 EDU_{it} + \beta_4 INF_{it} + \beta_5 Log\ GRDP_{it} + e_{it}$$

Noted:

i = Province i;
t = year t;
MSEs = number of micro small-enterprises (Log);
SAF_2 = special allocation fund (Log);
PFM = Population Ratio Female and Male;
EDU = The mean years of schooling (year).
INF = Annual inflation rate calculated based on the deflator;
GRDP = Gross Regional Domestic Product (Log);
e = error the i cross-section and the year t.

The Special Allocation Fund (SAF) variable used a two-year time lag before; the author assumed that the activities carried out would impact MSEs activity after running for two years. Several independent variables, namely SAF_2, PFM, EDU, INF, and GRDP, are expressed in logarithmic form, conversion of data into logarithms to reduce variable values to create a balance of values between one variable and another, such as The inflation rate and mean years of schooling (Kartika, 2019).

3. Results and Discussion

3.1. Results

This study aims to analyze the relationship between Special Allocation Funds (SAF) and the development of MSEs in Indonesia. The explanatory variables are the regional gross domestic product and the female and male population ratio. The first step in panel data analysis is choosing the most appropriate model. Panel data regression analysis uses the Common Effect Model (CEM) or Pool Least Squares (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM) approaches. To choose a good or efficient estimation model between Fixed Effect Model (FEM) and the Common Effect Model (CEM) using the Chow Test while

determining the model between the Fixed Effect Model (FEM) or Random Effect Model (REM) using the Hausman test. The Chow and Hausman test results are as follows:

Table 2. Chow test and hausman test results

Test	Probability	Significance Level	Decision
Chow	0.0000	0,05	Fixed Effect
Hausman	0.0007	0,05	Fixed Effect

Source: Research Processing Results

Based on the Chow Test and Hausman Test results in Table 1 explained that the most appropriate model to explain the relationship between special allocation funds and MSE development is the Fixed Effect Model (FEM). Based on the econometric model, the estimation of the relationship between Special Allocation Funds (SAF) and MSEs in the following equation:

Table 3. Regression result fixed effect model

Variable	*Coefficient*	*t- Statistic*
SAF_2	0,315	3,718***
EDU	1,982	1,747*
INF	- 0,007	-1,613
PFM	0,067	3,920***
GRDP	- 0,791	-2,071**
Constanta	- 0,962	-0,420

R^2 Adjusted = 0,9715, Prob (F- Statistic) = 0.00000

*Note: ***significance at 1%, ** significance at 5%, *significance at 10%,*

Source: Research Processing Results

The regression results show that most of the variables were significant regression coefficients. The Special Allocation Fund (Log SAF_2) and the ratio between the female and male population (PFM) are significant at 1%. Regional gross domestic product (Log GRDP) is significantly negative at 5%. Education (EDU) is a significant positive regression coefficient at 10%, and only the inflation rate (INF) shows a less significant regression coefficient. The adjusted R^2 of 0.9715 indicates that the five variables in the model can explain the variability of the number of micro small-enterprises of 97.15%. The F-statistic value of 207.57 indicates that the effect of the explanatory variables is significant at the 1% level.

3.2. Discussion

Based on the econometric model, special allocation funds have a significant positive effect on the number of micro and small businesses, meaning that government intervention in the form of special allocation fund flows will create new entrepreneurs by increasing the number of micro and small businesses in various provinces in Indonesia. The development of micro and small businesses is not only seen from the number of companies, but the emergence of new businesses will have a further impact, namely as a strategy for household survival. The increasing number of Micro Small Enterprises (MSEs) has helped the community improve family welfare. The funds rolled out from special allocation funds (SAF) can be seen as a driving factor for developing MSEs in Indonesia.

Many factors influence the development of micro and small businesses, including production technology, cost structure and entrepreneurial financing, company characteristics, management structure and marketing strategy, innovation, infrastructure (roads, electricity,

energy, communications, manufacturing environment); economic environment; Production inputs, government policies; and political stability (Erdin & Ozkaya, 2020; Essien et al., 2016; Faherty & Stephens, 2016). Adequate infrastructure is one of the essential factors in developing small micro enterprises (Ehikioya et al., 2018). His findings reinforce this research's results, where programs that receive financing from Special Allocation Funds (SAF) are regional affairs under national priorities, including infrastructure financing.

The results of this study indicate that government policy has a vital role in developing MSEs in Indonesia. Special Allocation Funds (SAF) rolled out by the government since the implementation of regional autonomy is allocated to improve the social and economic infrastructure of the region. Social infrastructure includes education and health, and economic infrastructure includes a. Road; b. Drinking water; c. sanitation; d. Housing and Settlements; e. Irrigation; f. Agriculture; g. Maritime Affairs and Fisheries; h. Small and Medium Industries; i. Tourist; and j. Environment (President of Republic Indonesia Number 123 Concerning Technical Instructions for Physical Special Allocation Funds for the 2021 Fiscal Year, 2021). The details of the programs that use SAF sources show that the government prioritizes the development of MSEs, such as Infrastructure development programs. Infrastructure is one of the main factors affecting the growth of MSEs; government spending on infrastructure financing can encourage the growth of MSEs, namely accelerating the mobility of raw materials and production output and encouraging new investment in MSEs (Mugo et al., 2019).

The empirical results concluded in this study confirm the results of research conducted by Essien (2016), which states that government spending can still become an instrument to accelerate economic growth and development in the short term. In addition, the research results strengthen Keynes's argument about the active role of government intervention in the economy. Thus the results of the study confirm that an increase in Special Allocation Funds (SAF) will increase the small micro business sector, further increasing economic growth. Therefore the most important thing is to ensure that the distribution is adequate and the allocation of Special Allocation Funds (SAF) is most appropriate so that the use of Special Allocation Funds (SAF) is for productive activities to achieve regional development goals. The positive effect of special allocation funds (SAF) on the development of small micro-enterprises is inseparable from the nature of the activities financed with special allocation funds (SAF). First, the special allocation fund (SAF) tends to finance physical or infrastructure activities, mainly social and economic infrastructure. Second, the special allocation fund (SAF) is a specific grant where the mechanism for proposing activities comes from the proposing district/province. So that the activities presented follow the needs of the proposed district/city, with this mechanism, the proposed activities are under regional conditions.

Education has a positive effect on increasing the number of micro and small businesses. The statement is in line with the results of research conducted by Lazzeretti and Capone (2020), which showed that education has an essential role in the development of entrepreneurship, including in the development of creative industries. Most of the works come from professional education that deals with intangible things such as designers, creative thinkers, advertisers, and many more. In micro and small business development, education is essential, for example, explaining to consumers how to market their products, attractive packaging, etcetera. The significant positive impact of education on the development of MSEs aligns with Kartika's research (2018). The indicator of this study is the mean years of schooling, while Kartika's research (2018) used the Gross participation number of the province. However, both give the same result; education plays an essential role in developing MSEs.

The ratio of the female population to the male population (PFM) significantly affects the number of MSEs. The higher ratio between the female and male people means that the female

population is higher than the male population; this indicates that women can potentially increase the number of MSEs. The reality in micro and small business actors tends to be female (interview with the head of the Bandung Office of Cooperatives and Small Business). Inflation hurts the development of MSEs; although not significant, high inflation can harm the economy (Cili & Alkhaliq, 2022). The increase in prices, in general, continuously causes people's purchasing power to decrease. High inflation indicates economic instability for business actors, so micro and small businesses will reduce their interest in developing their businesses because input and output prices become erratic.

4. Conclusion

The test results using the panel data model show that the flow of funds originating from the special allocation fund (SAF) significantly positively affects the increase in the number of micro-small businesses. It shows that government intervention through government spending in special allocation funds (SAF) to all provinces and districts/cities in Indonesia can empirically develop micro-small enterprises (MSEs). Special allocation funds will encourage the development of MSEs, both directly and indirectly. First, there are programs with the target of increasing MSEs financed with special allocation funds (SAF) that will directly encourage the development of MSEs. These programs include skills training for micro and small businesses, assisting in providing equipment and raw materials to develop small businesses. Development of infrastructure in the area, for example, sanitation, electricity, and clean water, will increase the productivity of micro and small entrepreneurs, indirectly encouraging the development of MSEs. The positive effect of special allocation funds (SAF) on increasing MSEs requires the government to evaluate programs that can promote MSEs so that implementing programs with special allocation funds (SAF) as funding sources is under national/regional development goals.

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