

The Impact of MSME Empowerment and Financial Inclusion on Poverty Reduction in South Palu

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Abstract-This study aims to analyze the extent to which the empowerment of Micro, Small, and Medium Enterprises (MSMEs) and financial inclusion influence poverty reduction in Palu City. MSME empowerment (X1) is seen as a key element in creating jobs, increasing community income, and strengthening the local economy. On the other hand, financial inclusion (X2) also plays a crucial role in opening access to formal financial services that can encourage productive economic activity. This study used a quantitative method by questionnaires distribution to 34 MSME actors in South Palu District who were selected through purposive sampling, specifically those who had participated in training programs or seminars organized by the government. The data were analyzed using multiple linear regression with the help of SPSS to test the effect of MSME Empowerment (X1) and Financial Inclusion (X2) on Poverty Reduction (Y). The results show that both independent variables explain about 67.5% of the variation simultaneously affect Poverty Reduction (Y). In partially, only Financial Inclusion (X2) is proven to have a significant effect, while MSME Empowerment (X1) requires other supporting components in order to have a significant impact on Poverty Reduction (Y).

Keywords: MSMEs; Financial Inclusion; Economic Growth; Poverty Reduction; Regional Development

1. INTRODUCTION

In economics, poverty is defined as a lack of resources required to meet basic needs, which ultimately affects overall social welfare (Marselina Lian et al., 2025). Data from the Central Statistics Agency (BPS) indicate that in 2024 approximately 34.7% of households in Indonesia lived in housing conditions that were not suitable for habitation. This condition reflects that a significant proportion of families still reside in unsafe and inadequate environments, which negatively affects their health, comfort, and well-being (Kementerian Koordinator Bidang Perekonomian RI, 2025). Persistently rising poverty levels may reduce household income, weaken market demand, and lower productivity, thereby hindering regional economic development (Maulana et al., 2022). Therefore, poverty reduction is a crucial objective, as it emphasizes social justice and human rights as foundations for sustainable economic progress (Panduwinata et al., 2025).

Poverty reduction aims not only to decrease the number of people living below the poverty line but also to prevent the emergence of new poverty through sustainable economic mechanisms (Rogahang et al., 2023). Poverty reduction does not only focus on cash assistance programs, but also helps acquire the skills and abilities necessary for them to live independently (Nova Amelia et al., 2025). In this context, inclusive economic growth is essential, particularly growth that extends across all sectors, including Micro, Small, and Medium Enterprises (MSMEs), which play a strategic role in employment creation and Income Improvement (Vania Grace Sianturi et al., 2021). MSMEs refer to small and medium-sized enterprises that contribute significantly to the national and regional economy through job creation, increased community income, and local economic resilience. (Sugina et al., 2024; Aulia et al., 2024). In Indonesia, MSMEs account for more than 60% of economic output and absorb nearly 97% of the workforce, with over 64 million business units currently operating. However, their contribution to national exports remains relatively low at approximately 15.7%. This limitation is largely attributed to restricted access to financing, limited production capacity, insufficient certification and quality standards, and low levels of digitalization and innovation (Avisena, 2025). Therefore, MSME empowerment is considered a critical strategy for strengthening local economic foundations and enhancing community economic independence (Fajriyati & Ambarwati, 2025).

Efforts to empower MSME have involved various stakeholders, including government institutions, educational organizations, and community groups (Buntuang et al., 2024). One key factor supporting MSME development is financial inclusion, which enables businesses and individuals to access formal financial services effectively. Improved access to finance allows MSMEs to expand operations, increase income, and improve economic resilience, thereby contributing indirectly to poverty reduction (Kaya et al., 2025; Nasution, 2024). In Indonesia, the level of financial inclusion in 2025 is estimated to reach 80.5%, with urban areas recording higher inclusion rates than rural regions, indicating persistent disparities in access to financial services (Laksono, 2025).

As a way to overcome problems related to MSME empowerment, financial inclusion, and poverty alleviation, this can be done by strengthening financial literacy and education that is more focused on the community, groups with low levels of education, informal workers, and users of secure digital financial services, even in remote areas. This step must be accompanied by improvements in infrastructure, strengthening the capacity of public service support personnel, and improving digital systems so that the benefits of the program can be felt evenly. At the same time, improvements in

the socio-economic situation of the community can be made through decent housing programs and initiatives to rehabilitate uninhabitable houses in certain areas, which aim to create a healthier environment for underprivileged families. The use of appropriate social economic data enables the effective distribution of aid, assistance for MSMEs, and home renovation programs, so that the community can have a stronger foundation to participate in economic activities, use financial services, and improve their welfare in a sustainable manner.

Although previous studies have examined the relationship between MSME empowerment, financial inclusion, and poverty reduction, most rely on macro level indicators such as regional poverty rates and national statistics. Limited empirical evidence focuses on micro level perspectives, particularly the experiences and perceptions of MSME actors at the local level. This gap is especially evident in district-level urban areas such as South Palu District, where local economic conditions may shape the effectiveness of empowerment and financial inclusion initiatives. Therefore, this study aims to analyze the impact of MSME empowerment and financial inclusion on poverty reduction in South Palu District by focusing on MSME actors as the unit of analysis, thereby contributing localized empirical evidence to the existing literature.

2. RESEARCH METHOD

This study used a quantitative method by distributing questionnaires to 34 MSME actors in South Palu District who were selected through purposive sampling. Purposive sampling was chosen based on the requirement that respondents must have participated in workshops, seminars, or training programs organized by the government. After the data was collected through questionnaires, the analysis continued by processing the data using SPSS to perform multiple linear regression. This is done by analyzing statistical data that has one dependent variable and more than one independent variable (Sulantari et al., 2024). The purpose of multiple linear regression analysis was to determine whether the independent variables (MSME Empowerment and Financial Inclusion) had a significant simultaneous or partial effect on the dependent variable (Poverty Reduction).

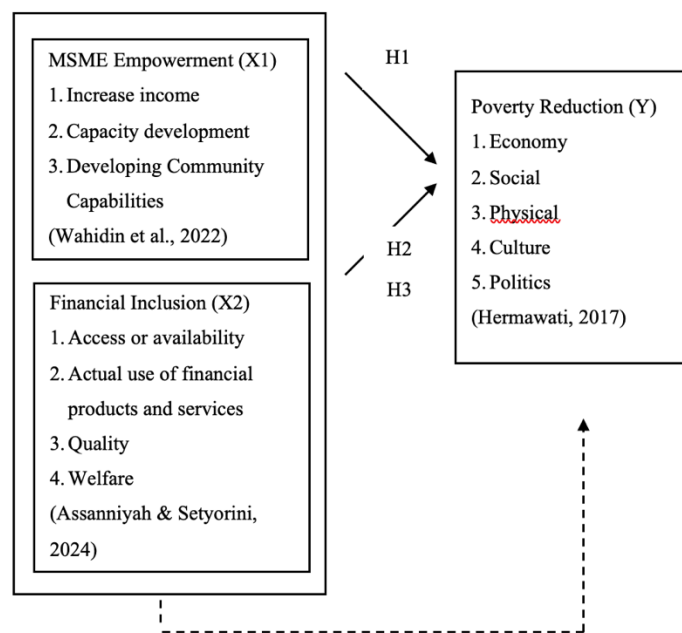


Figure 1. Conceptual framework

3. RESULTS AND DISCUSSION

Table 1. MSME Empowerment

Indicator	N	Mean	Std. Deviation	
New Product Innovation (X1.6)	34	3.41	.783	Highest
Economic Level (X1.1)	34	3.18	.626	Lowest
Valid N (listwise)	34			

The table above shows that the New Product Innovation (X1.6) indicator has the highest mean of 3.41, indicating that respondents relatively consider product innovation capabilities to be the strongest, most dominant, and most important element of the overall MSME empowerment process. When MSMEs are able to innovate, they are better able to meet customer needs, adapt to market changes, and differentiate themselves from competitors (Andy Endra Krisna, 2024). Meanwhile, the Economic Level (X1.1) indicator has the lowest mean of 3.18, indicating that the economic

conditions of MSME actors are perceived as a less prominent aspect of empowerment compared to product innovation. The lower mean value also indicate that, although economic conditions are important, they may not be considered the most urgent or dominant issues requiring immediate attention compared to more dynamic and impactful roles.

Table 2. Financial Inclusion

Indicator	N	Mean	Std. Deviation	
Well-managed Financial Conditions (X2.7)	34	3.85	.702	Highest
Use of Financial Products (X2.4)	34	3.44	.894	Lowest
Valid N (listwise)	34			

The results show that the Well-Managed Financial Condition indicator (X2.7) has the highest mean, which is 3.85. This value indicates that respondents tend to have a stronger and more positive assessment of their financial management capabilities, suggesting that this is considered the most important component of financial inclusion among the surveyed MSME actors. The high mean also shows that respondents believe their ability to plan, save, allocate money well. This shows that good financial management practices play an important role maintaining the stability and progress of their businesses (Luckieta, 2025). The Use of Financial Products (X2.4) indicator has the lowest mean, it's only 3.44 although the MSME actors in the sample felt sufficiently capable of managing their own finances, they did not make sufficient use of formal financial products and services. This indicates that the Use of Financial Products (such as savings, credit, or digital services) is perceived as the weakest aspect of financial inclusion in this sample.

Table 3. Poverty Reduction

Indicator	N	Mean	Std. Deviation	
Work Ethic Ownership (Y3.22)	34	4.21	.641	Highest
Participation in Determining Public Service Programs (Y3.31)	34	3.26	.710	Lowest
Valid N (listwise)	34			

Poverty reduction aims to reduce the number of people living below the poverty line and prevent new poverty from emerging (Rogahang et al., 2023). Referring to the table, the Work Ethic Ownership indicator (Y3.22) has the highest mean, which is 4.21. This value shows that respondents consider Work Ethic Ownership to be the strongest factor in supporting poverty reduction efforts. Conversely, the Participation in Determining Public Service Programs indicator (Y3.31) has the lowest mean, at 3.26. This shows that respondents Participation in Determining Public Service Programs is perceived as the weakest factor in promoting poverty reduction.

Table 4. Simultaneous Test Results (F)

		Anova				
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3624.881	2	1812.441	32.155	.000 ^b
	Residual	1747.354	31	56.366		
	Total	5372.235	33			
a. Dependent Variable: Poverty Reduction						
b. Predictors: (Constant), MSME Empowerment, Financial Inclusion						

Basically, the F statistical test shows whether all independent variables (X) in the model affect the dependent variable (Y). If the probability level is less than 0.05, then it can be said that all independent variables affect the dependent variable together (Kharislam et al., 2021). Based on the results in the table, an F value of 32.155 with a significance level of 0.000 indicates that the regression model containing the variables of MSME Empowerment and Financial Inclusion is simultaneously and significantly effective in reducing poverty. This indicates that both independent variables contribute strongly to explaining changes in the dependent variable.

Table 5. Partial Test Results (T)

		Coefficients				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	56.432	7.467		7.558	.000
	MSME Empowerment	.912	.558	.279	1.635	.112
	Financial Inclusion	1.260	.369	.518	3.410	.002

From the partial test results, each independent variable shows a different degree of influence on poverty reduction. In MSME Empowerment, a t value of 1.635 with a significance level of 0.112 indicates that this variable has no significant partial effect. If the calculated t-value is smaller than the table t-value and the significance value is greater than 0.1, then H1 is rejected (Asriani et al., 2022). It is possible that the effect of MSME empowerment is indirect or requires other variables to be more visible. The Financial Inclusion variable shows a t value of 3.410 with a significance of 0.002, indicating that this variable has a partial effect and contributes more clearly and significantly to poverty

reduction. The B coefficient of 1.260 and a beta value greater than MSME Empowerment indicate that improvements in the economic conditions of the community are more consistent with increased access to and utilization of financial services. This shows that Financial Inclusion is a more decisive factor in explaining the variation in poverty reduction than MSME Empowerment.

Table 6. Coefficient of Determination Test Results

Model	R	R Square	Model Summary	
			Adjust R Square	Std. Error of The Estimate
1	.821 ^a	.675	.654	7.508

According to the results of the coefficient of determination test attached in the table, an R Square value of 0.675 indicates that the independent variables in the model are able to explain 67.5% of the variation in the dependent variable. An adjust R square value of 0.654, which is adjusted for the number of independent variables and sample size in the research model, can still explain 65.4% of the variation in the dependent variable. This value indicates that the model's ability to explain the relationship between variables is relatively stable and realistic. Meanwhile, the standard error of the estimate value of 7.508 indicates the level of prediction error in the regression model. The smaller the value, the better the model's ability to predict actual values. An R value of 0.821 indicates a strong and positive relationship between the independent and dependent variables, meaning that an increase in the independent variable tends to be followed by an increase in the dependent variable.

3.1 Discussion

The results show that the regression model used can explain the relationship between MSME Empowerment (X1) and Financial Inclusion (X2) on Poverty Reduction (Y). The F test result of 32.155 with a significance level of 0.000 indicates that both independent variables simultaneously have a significant effect on Poverty Reduction. The R Square value of 0.675 supports this finding, meaning that 67.5% of the variation in poverty reduction can be explained by MSME Empowerment and Financial Inclusion. The Adjust R Square value of 0.654 shows that the model remains stable after adjustment, and the R value of 0.821 shows a strong and positive relationship between the independent and dependent variables.

These results imply that improvements in MSME Empowerment and Financial Inclusion are closely related to poverty reduction efforts. However, the partial test results show differences in the contribution of each variable. MSME Empowerment (X1) does not show a significant partial effect on poverty reduction, as indicated by a t value of 1.635 and a significance level of 0.112. This implies that MSME Empowerment may have an indirect impact or require support from other factors in order to significantly influence poverty reduction. On the other hand, Financial Inclusion (X2) has a significant partial effect, with a t value of 3.410 and a significance level of 0.002. The B coefficient value of 1.260 and the higher beta value indicate that Financial Inclusion contributes more strongly to Poverty Reduction than MSME Empowerment.

4. CONCLUSION

The results of this study indicate that MSME Empowerment (X1) and Financial Inclusion (X2) simultaneously have a positive and significant effect on Poverty Reduction (Y), as evidenced by the F test value of 32.155 with a significance level of 0.000. The coefficient of determination shows that 67.5% of the variation in poverty reduction can be explained by the two independent variables. The strong and positive relationship between the variables is further supported by an R value of 0.821, indicating that improvements in MSME Empowerment and Financial Inclusion are closely associated with efforts to reduce poverty. However, based on the partial test results, Financial Inclusion (X2) was proven to have a significant and more dominant effect on Poverty Reduction (Y), as indicated by a higher t value and regression coefficient compared to MSME Empowerment (X1). On the other hand, MSME Empowerment did not show a significant partial effect, indicating that its impact on poverty reduction tends to be indirect and requires support from other elements such as market access, continuous training, and capital support (Putri & Irfan, 2024). This study has several limitations, including a relatively small number of respondents and the use of only two independent variables. Therefore, further research is recommended to use a larger sample size, expand the scope of variables, such as digital innovation, education quality, and social protection, and apply more diverse methodological approaches to provide a more comprehensive understanding of poverty reduction strategies.

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