

The Effect of Micro, Small and Medium Enterprises on Economic Growth

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Abstract

Micro, small and medium enterprises (MSMEs) are declared very capable of playing a crucial role for a region, specifically as one of the drivers of regional economic growth. Micro, small and medium enterprises (MSMEs) are defined as a means to introduce regional creative products and provide business opportunities for enterprise actors in the regions. In addition, the role of micro, small and medium enterprises (MSMEs) actors is considered very vital in order to increase per capita income and improve the economy of a region. Consequently, micro, small and medium enterprises (MSMEs) are required to actively participate in developing the country's economy. The results of the study showed that 90.1% of MSMEs provided significant effects on the rate of economic growth.

Keywords

micro, small; medium; enterprises; economic growth



I. Introduction

Economic development is commonly conceived as a multidimensional process that involves major changes in social structures, community attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty (Todaro, 1998). According to Muana (2001), the development and economic growth of a country is usually associated with its national income. The broadest and most widely used measure of national income is Gross Domestic Product (GDP). Gross Domestic Product (GDP) is defined as the total value or market prices of all final goods and services produced by an economy over a certain period (usually 1 year). Consequently, GDP is considered as an important indicator to determine the economic condition of a country. An increase in GDP will indicate that the country's economic development is getting better than the previous year (Hapsari et al, 2014).

A country may grow its economy rapidly by focusing on creative business sectors, without having to be followed by the creation of an adequate workforce. Development experiences during the New Order have provided an illustration of easy steps to trigger growth through creative and innovative business approaches. According to Wirawan (2012:47), creative industries are referred to as a collection of economic activities related to the creation or use of knowledge and information.

Micro, small and medium enterprises (MSMEs) are capable of playing a crucial role for a region, specifically as one of the drivers of regional economic growth. The activities of micro, small and medium enterprises (MSMEs) are regarded as a means to introduce regional creative products and provide business opportunities for enterprise actors in the region. In addition, the role of micro, small and medium enterprises (MSMEs) is declared very important in order to increase per capita income and improve the economy of a region. Therefore, micro, small and medium enterprises (MSMEs) are required to be

capable of being actively engaged in developing the country's economy (Abdul Halim, 2020).

Development is a systematic and continuous effort made to realize something that is aspired. Development is a change towards improvement. Changes towards improvement require the mobilization of all human resources and reason to realize what is aspired. In addition, development is also very dependent on the availability of natural resource wealth. The availability of natural resources is one of the keys to economic growth in an area. The relationship between inflation and economic growth is one of the debatable issue and the most important macroeconomic discussions among macro economists, policy-makers and monetary authorities in all countries (Wollie, 2018). Therefore the availability of natural resources must be managed and utilized by the government and the community appropriately, which can provide optimal benefits for the continuity of nature and humans in the future.

Micro, Small and Medium Enterprises (MSMEs) are defined as one of the sectors that are highly affected by the Covid-19 pandemic, which has also led to the decline of the national economy. This is due to the large contribution of MSMEs in the national economy. According to data generated by the Ministry of Cooperatives, Small and Medium Enterprises (locally known as KUKM) in 2018, the number of MSME actors was amounted to 64.2 million or 99.99% of the total number of enterprise actors in Indonesia. The absorption capacity of MSME workers was amounted to 117 million workers or 97% of the labor absorption capacity of the business world. Furthermore, the contribution of MSMEs to the national economy (GDP) was amounted to 61.1%, and the remaining 38.9% was contributed by large enterprise actors, which amounted to only 5,550 or 0.01% of the total enterprise actors. The MSMEs were dominated by micro enterprise actors which amounted to 98.68% with a workforce absorption capacity of 89%. Moreover, the contribution of micro enterprises to GDP was only approximately 37.8% (Edward-Ministry of Finance, 2020).

According to Maduretno and Agus (2019), the GDP contribution of MSMEs at current prices showed an increasing trend in the form of a quadratic since 2000 by 760089.5 billion to 7704635.9 billion. On average, there was an increase in GDP of 14.73% per year. The development of the number of MSME GDP based on current prices, which was obtained nationally during the period 2000 to 2017 is shown in the following figure:

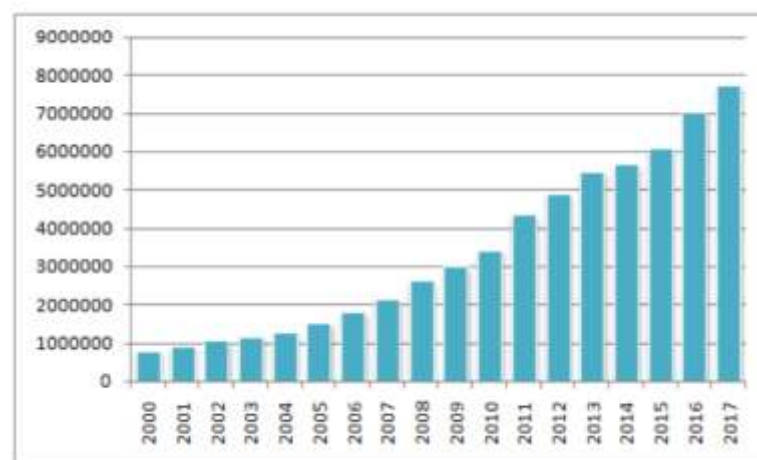


Figure 1. GDP Development at Current Prices

Source: Maduretno and Agus (2019)

Many studies had proven that MSMEs are capable of providing an influence on the rate of economic growth, such as studies conducted by Yuliasri Hanni Riswara (2018), Sari Ratni et al (2018), Hapsari, et al (2014), and Zubairi and Yoyok (2015). Moreover, the study conducted by Lutfiyah (2016), stated that Micro, Small and Medium enterprises have no significant effect on Indonesia's growth.

One of the efforts to revive the economy during the Covid-19 pandemic is by means of developing the MSME program. Therefore, the Government has set several policies, specifically related to loan interest subsidies, credit restructuring, availability of working capital guarantees and tax incentives. The funds allocated for the scheme are amounted to Rp123.46 trillion. Moreover, the problems in MSMEs are not only caused by the Covid-19 pandemic, but are also influenced by government policies in improving the financial capabilities of MSMEs. There are several structural problems of MSMEs that need to be resolved, so that MSMEs are subsequently capable of playing a role in the national economy. Significant problems are related to the quality and continuity of production, access to marketing, product packaging, the quality of HR/MSME actors in the managerial, financial and production fields (Edward-Ministry of Finance, 2020).

According to Haryo Limanseto as Head of the Bureau of Communications, Information Services, and Trials, the COVID-19 pandemic has caused a large disruption to MSMEs. In line with the release of the Katadata Insight Center (KIC), the majority of MSMEs (82.9%) were affected by the negative impact of this pandemic and some MSMEs (5.9%) were shown to experience positive growth. Referring to survey results from several institutions (BPS, Bappenas, and the World Bank), this pandemic had led to many MSMEs having difficulty paying off loans as well as paying electricity, gas, and employee salaries. This pandemic had also made several MSMEs to lay off their employees. Furthermore, MSMEs were likely difficult in obtaining raw materials and capital, and their customers had also significantly decreased, and distribution and production had become hampered.

Referring to that matter, the researcher was intended to determine the effect of MSMEs on the rate of economic growth. Moreover, micro, small and medium MSME variables were also involved in this study. This study was conducted to examine the effect given by MSMEs on the rate of economic growth.

II. Review of Literature

2.1 Definition of MSME

According to BPS, the criteria for MSMEs are differentiated based on the number of employees. Micro enterprises are defined as enterprise entities with 1 to 5 employees, and small enterprises have 5 to 19 employees, while medium enterprises have 20 to 99 employees. Furthermore, based on the capital side according to the Regulation of the Minister of Finance No: 316/PMK.016/1994, a small enterprise is an individual or enterprise entity that has carried out activities/enterprises with a maximum sales/turnover of IDR 600,000.- and a maximum asset of IDR 600,000,000.- (Tulus, 2009).

2.2 Definition of Economic Growth Rate

Gross Regional Domestic Product (GRDP) data is utilized to determine regional economic growth. GRDP can be defined as the value of final goods and services produced by the economic system in a region within a certain period. Thus, GRDP is referred to as a measure to examine the economic activity of a region. Theoretically, GRDP is always associated with Gross Domestic Product (GDP), particularly from the concept, definition, methodology, scope and data sources. This is highly required to be done to maintain

uniformity of concepts, definitions and methods used throughout Indonesia (Diyan Wahyudi, 2010).

GRDP is considered as the value of all goods and services produced within a certain period, specifically within one year in a certain area without differentiating the ownership of the factors of production used in the production process. Furthermore, regional income is defined as the value of the production of goods and services created in an economy in a certain region during one year (Sukirno 2006).

Hypotheses :

H1 : Micro enterprises affect the rate of economic growth

H2 : Small enterprises affect the rate of economic growth

H3 : Medium enterprises affect the rate of economic growth

III. Research Methods

This study utilized secondary data, specifically time series data. Secondary data is data obtained from indirect sources with the object being examined or other sources related to the study, particularly data obtained from related agencies or institutions. The data in this study were successfully obtained through statistical books.

There were 3 independent variables and 1 dependent variable involved in this study. The 3 independent variables of this study represented the concept of MSME empowerment as proxied from the value of MSME Credit Proportion to Total Credit (Trillion Rupiah), the 3 independent variables include:

1. Micro enterprises
2. Small enterprises
3. Medium enterprises

Meanwhile, 1 dependent variable represented the concept of economic growth as proxied from Indonesia's growth rate (%). The data were then processed by using descriptive and inferential statistical methods. Moreover, the results of the study were determined by means of the regression analysis method with the data to be processed in the form of time series data.

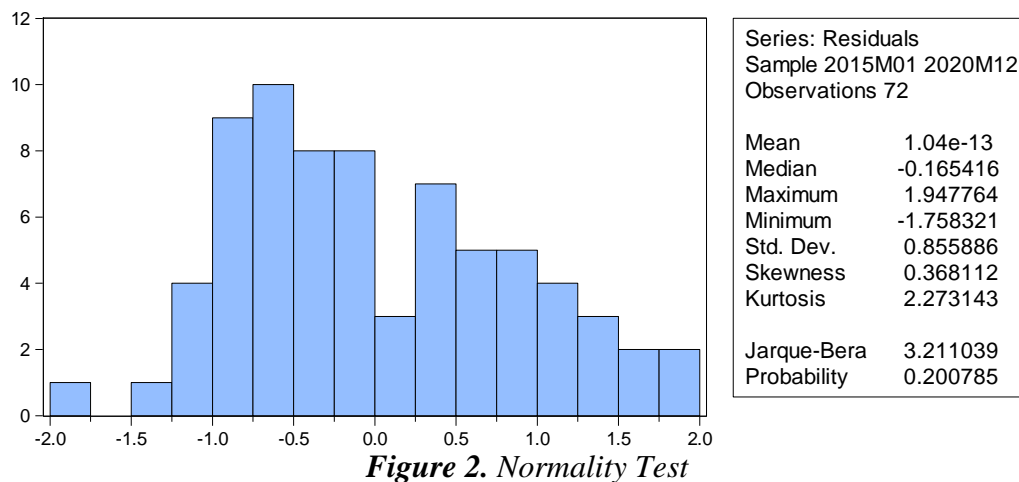
IV. Results and Discussion

4.1 Analysis Results

Table 1. Descriptive

	Micro	Small	Medium	Economic Growth
Mean	220.9	279.1	428.2	2.1
Median	220.3	281.6	436.9	3.7
Maximum	300.9	361.1	510.2	3.9
Minimum	140.3	202.0	329.5	-3.2
Std. Dev.	48.3	49.0	54.5	2.7
Skewness	0.0	-0.1	-0.3	-1.2
Kurtosis	1.8	1.7	1.8	2.6
Jarque-Bera	4.6	4.9	5.8	17.2
Probability	0.1	0.1	0.1	0.0
Sum	15906.1	20097.1	30829.5	152.0
Sum Sq. Dev.	165342.6	170522.9	210965.1	529.1
Observations	72	72	72	72

Referring to the table above, Micro enterprise shows an average value of 220.9, a minimum value of 140.3 and a maximum value of 300.9. Small enterprise indicates an average value of 279.1, a minimum value of 202.0 and a maximum value of 361.1. Medium enterprise exposes an average value of 428.2, a minimum value of 329.5 and a maximum value of 510.2. For economic growth, the average value is found to be 0.27, the minimum value is 0.02 and the maximum value is 1.19. Furthermore, the ROA has an average value of 2.1, a minimum value of -3.2 and a maximum value of 3.9.



Based on the output results above, the probability value in the model was > 0.05 , then it can be concluded that the residuals were normally distributed in the model.

Table 2. Heteroscedasticity Test

Heteroskedasticity Test: Harvey

F-statistic	0.326348	Prob. F(3,68)	0.8063
Obs*R-squared	1.021920	Prob. Chi-Square(3)	0.7959
Scaled explained SS	0.872039	Prob. Chi-Square(3)	0.8322

Based on the table above, it was found that the probability value of obs*R-Square for the model was > 0.05 , then it can be concluded that there was no violation of the heteroscedasticity assumption.

Table 3. Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	12.06829	Prob. F(55,13)	0.0000
Obs*R-squared	70.61693	Prob. Chi-Square(55)	0.0764

Based on the table above, it was found that the probability value of obs*R-Square for the model was > 0.05 , then it can be concluded that there was no violation of the autocorrelation assumption.

Table 4. Multicollinearity Test

	Small	Medium	Micro
Small	1	0.79	0.79
Medium	0.79	1	0.77
Micro	0.79	0.77	1

Based on the table above, it was found that the correlation value between variables was < 0.8 , then it can be concluded that there was no violation of multicollinearity.

Table 5. Partial Hypothesis Testing (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-343.8901	25.05776	-13.72390	0.0000
MICRO	-0.301035	0.021979	-13.69623	0.0000
SMALL	140.3212	19.39827	7.233694	0.0000
MEDIUM	26.73812	12.56983	2.127167	0.0370

Referring to the table above, the following results are obtained:

1. Variable X_1 had a probability value which was smaller than 0.05. Because the probability value (0.000) was < 0.05 , then H_0 was rejected. Therefore, it can be concluded that there was a partially significant effect of Micro enterprises on economic growth.
2. Variable X_2 had a probability value which was smaller than 0.05. Because the probability value (0.000) was < 0.05 , then H_0 was rejected. Therefore, it can be concluded that there was a partially significant effect of Small Enterprises on economic growth.
3. Variable X_1 had a probability value which was smaller than 0.05. Because the probability value (0.037) was < 0.05 , then H_0 was rejected. Therefore, it can be concluded that there was a partially significant effect of Medium Enterprises on economic growth.

Table 6 Simultaneous Hypothesis Testing (F Test)

R-squared	0.901701	Mean dependent var	2.110806
Adjusted R-squared	0.897364	S.D. dependent var	2.729862
S.E. of regression	0.874562	Akaike info criterion	2.623765
Sum squared resid	52.01036	Schwarz criterion	2.750246
Log likelihood	-90.45554	Hannan-Quinn criter.	2.674118
F-statistic	207.9218	Durbin-Watson stat	0.067296
Prob(F-statistic)	0.000000		

Regarding to the table above, the probability value of F count amounted to 0.000000 was successfully obtained. Because the probability value of F count (0.000000) was < 0.05 , then H_0 was rejected. Thus, it can be concluded that the variables of micro, small and medium enterprises simultaneously had a significant effect on economic growth. The R-squared value of 0.901 indicated that micro, small and medium enterprises provided a contribution to economic growth, which was amounted to 90.1%, while the remaining 9.9% was the contribution of other variables besides the independent variables examined.

4.2 Discussion

The results of statistical calculations showed that MSMEs, both partially and simultaneously, had a significant effect on economic growth, this was indicated by the probability value which was smaller than 0.05. This is in line with studies conducted by Maduretno and Agus (2019), which stated that there was an effect of MSMEs on economic growth. Micro, Small and Medium Enterprises (MSMEs) contributed an important role in the economy in Indonesia. MSMEs accounted for 99.99% of the total enterprise actors in Indonesia or 56.54 million units. Micro, Small and Medium Enterprises have been able to prove their existence in the Indonesian economy. Micro, Small and Medium Enterprises have become one of the priorities of the development agenda in Indonesia, this is evidenced by the persistence of the SME sector during the great crisis in 1998. In comparison to other larger sectors, it was unable to survive the crisis.

According to Tambunan (2012), micro, small and medium enterprises (MSMEs) are highly required in efforts to eradicate poverty in Indonesia. In particular, with the implementation of regional autonomy along with fiscal decentralization, efforts by local governments on their own initiative to reduce the number of poor people in the regions are considered very important. MSMEs in Indonesia are highly expected to be capable of continuing to play an optimal role in the absorption of labor to overcome unemployment. According to BPS data, the number of SMEs continues to increase and continues to dominate the number of companies. Since the beginning of the New Order era, the Indonesian government has carried out so many programs to encourage the development of SMEs. However, up to the present time, compared to SMEs in developed countries, SMEs in Indonesia are still relatively weak in many aspects, including their tendency to focus more on low-tech production, such as food, apparel, furniture, and handicrafts. In every SME product exhibition held, SMEs only display products that are likely the same, or show less innovation to create or sell products with more value (Tambunan, 2009).

Apart from being a contributor to the national GDP, MSMEs also have an important role as an absorber of labor. MSMEs have labor-intensive characteristics, which means they have a very large potential for growth in employment opportunities, MSME growth can be classified as a crucial element of national policies to increase employment opportunities and create income, particularly for the poor people. It is also capable of explaining the reasons related to the growth of MSMEs, which are becoming increasingly important in rural areas in developing countries, specifically in areas where the agricultural sector has stagnated or is no longer able to absorb annual growth from the supply of rural workers (Rizka Aulia, 2021).

Empowerment of Micro, Small and Medium Enterprises (MSMEs) is considered very important and strategic in anticipating the future economy, especially in strengthening the structure of the national economy. The current condition of the Covid-19 pandemic has greatly affected national, economic and political stability, which will lead to large disruption in the activities of large enterprises which are getting worse, while MSMEs and cooperatives are still relatively able to maintain their business activities.

V. Conclusion

Regarding to the results of the analysis and discussion that have been elaborated previously, the conclusions of this study are as follows:

1. Micro enterprises have a significant effect on the rate of economic growth.
2. Small enterprises have a significant effect on the rate of economic growth
3. Medium enterprises have a significant effect on the rate of economic growth

The regional government is expected to be able to facilitate beginner MSMEs in terms of entrepreneurship training, capital enterprise development training, and is also capable of opening national and international scale markets, because MSMEs are able to reduce unemployment, create business fields, contribute to Regional Original Revenue (locally known as PAD) through taxes to be paid and increase economic growth. The general public should actively participate in training to develop their skills or experiences to work or become MSME entrepreneurs, and be capable of increasing their respective incomes and contributing to economic growth. This study still needs to be developed further, because there are still many aspects that can be explored further for the growth of small and medium businesses.

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