

THE INFLUENCE OF MSMEs DEVELOPMENT ON ECONOMIC GROWTH IN NORTH LUWU REGENCY

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Abstract: *This research aims to provide a comprehensive and in-depth depiction of the influence of MSME development on economic growth in North Luwu Regency. The method used in this research is simple linear regression analysis. This research uses time series data issued by the Central Statistics Agency (BPS) and the North Luwu Regency Trade, Industry, Cooperatives and SMEs Service. Data collected in the last 10 years. The type of research applied in this research is quantitative. The results of this research are that the development of MSMEs has a significant effect on economic growth.*

Keywords: *MSMEs; Economic Growth*

Abstrak: Penelitian ini bertujuan untuk memberikan gambaran secara menyeluruh dan mendalam tentang pengaruh pengembangan UMKM terhadap pertumbuhan ekonomi di Kabupaten Luwu Utara. Metode yang digunakan dalam penelitian ini adalah analisis regresi linier sederhana. Penelitian ini menggunakan data time series yang dikeluarkan oleh Badan Pusat Statistik (BPS) dan Dinas Perdagangan, Perindustrian, Koperasi dan UKM Kabupaten Luwu Utara. Data dikumpulkan dalam kurun waktu 10 tahun terakhir. Jenis penelitian yang diterapkan dalam penelitian ini adalah kuantitatif. Hasil penelitian ini adalah pengembangan UMKM berpengaruh signifikan terhadap pertumbuhan ekonomi.

Kata Kunci: Usaha Mikro Kecil Menengah; Pertumbuhan Ekonomi

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INTRODUCTION

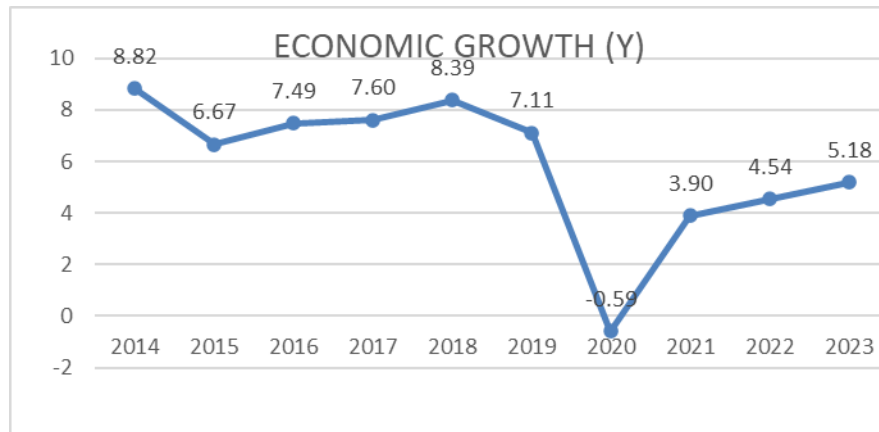
The economic development of a region or country relies on human resources, natural resources, capital, technology, and others. Indonesia is a country that basically has one goal, namely national development which is the promotion of general welfare. Population growth has a positive impact on economic development if the state and progress of the population is closely related to the growth and development of economic endeavours. The population on the one hand can be a subject or resource of production factors, and on the other hand can be an object or consumer of the products produced (Halim, 2020).

Economic growth is one of the important indicators to analyse the development of a country's economy. Economic growth refers to how much additional income economic activity generates for society over a period of time (Patra, 2022).

Encouraging the economic growth of a particular region requires the creation of quality human resources. With rapid economic growth, income equality is expected to be achieved over time and income distribution will improve (Mustain et al., 2023).

North Luwu is one of the regions in South Sulawesi Province, Indonesia. Like other regions in Indonesia, North Luwu faces various economic challenges that must be overcome to achieve sustainable economic growth. Economic growth is an important indicator of community welfare. Economic growth in North Luwu is driven by an increase in goods and services produced in the economy. To find out how high the economic growth of a region actually is, you can look at the growth rate of GDP at certain prices. Real economic growth can be seen from the value of GDP when prices are held constant. If it is positive, it means that the economy in the northern region of Luwu is growing, and if it is negative, it means that the economy in the northern region of Luwu is declining.

Economic Growth in North Luwu Regency



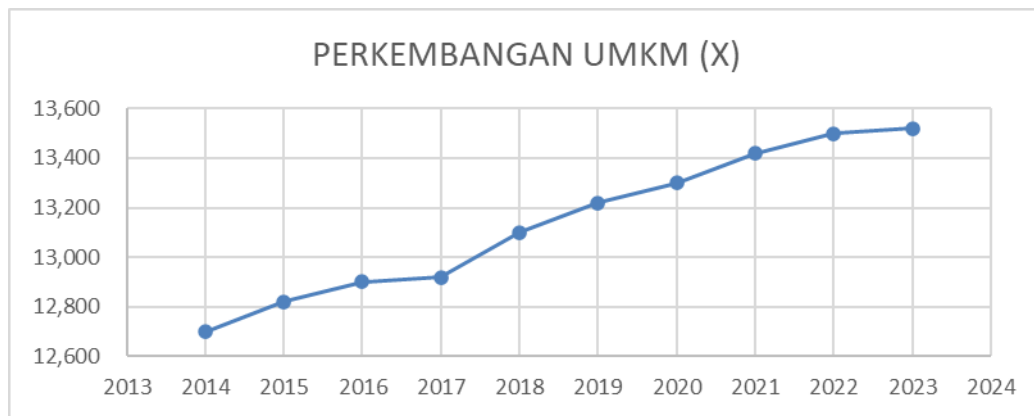
Source: South Sulawesi Central Bureau of Statistics 2022

Graph 1 shows that in 2022 economic growth in North Luwu increased. This growth was influenced by increased production in all business fields that were free from the effects of inflation. So, this shows that during 2022 there was an increase in economic growth of 4.54 per cent, so it is higher when compared to economic growth in the previous year which reached 3.90 per cent. With the post-Covid-19 recovery and the flood disaster, economic growth was marked by an increase in production in the agricultural sector and some infrastructure development was sufficient to help restore economic growth in North Luwu Regency in 2022.

Strengthening MSMEs in the face of globalisation and intense competition means that they must be able to answer global challenges such as Encouraging product and service innovation, developing human resources and technology, and expanding marketing areas. Encouraging entrepreneurship and making it easier for you to open a business with various benefits and conveniences. In 2017, the Ministry of Cooperatives, Small and Medium Enterprises (Kemenkop UKM) reported that there were 3,794,444 micro, small and medium enterprises (MSMEs) using online platforms to market their products. This figure represents around 8% of the total MSME players in Indonesia or 59.2 million people (Sari, 2019).

Micro, small and medium enterprises (MSMEs) are productive economic entities whose income contributes significantly to the national and regional economy. MSMEs usually have the advantage of utilising local labour-intensive natural resources such as food cultivation, plantations, livestock, fisheries, trade, and restaurants. Therefore, MSMEs also make a very important contribution to local governments through Regional Original Revenue (PAD). Therefore, it is necessary to develop and increase the presence of MSMEs in Indonesia. The role of MSMEs in the Indonesian economy can be seen from their current position in the business world. The following is a graph of the development of MSMEs in North Luwu Regency.

Graphics 2. DEVELOPMENT OF UMKM



Source: Department of Industry, Trade, and SMEs, 2024

The main challenges MSMEs face in digitalisation are low staff numbers and lack of access to technology. Overcoming these challenges requires support and education for businesses seeking change. Efforts to prepare MSMEs for the digital era must include empowerment movements (Fuadi et al., 2021).

Several previous studies have examined factors that have an impact on economic growth and produced several different research results. Based on research (Sipur & Almastoni, 2021) which states that MSMEs have an influence on economic growth in Indonesia, while research (Sari, 2019) states that there is no partially significant effect of MSMEs on economic growth.

Based on the background that has been explained and there are inconsistencies in the results of previous studies related to factors that affect economic growth, so researchers are interested in taking themes related to economic growth with the subject of MSME research in North Luwu Regency.

Problem Formulation

Based on the above background, the problem formulation of this study is the development of MSMEs affects economic growth in North Luwu Regency?

Research Objectives

Based on the problem formulation above, the purpose of this study is to determine the effect of MSME development on economic growth in North Luwu Regency.

Research Benefits

1. It is hoped that this research can help economic progress, especially those related to economic growth.
2. It is hoped that this research will be able to assist the government in the development of economic growth and to build the facilities and infrastructure needed for economic growth in North Luwu Regency.
3. This research is expected to be able to increase knowledge, especially those related to the development of MSMEs and economic growth.
4. For further researchers, it is hoped that it will add several other variables and factors related to economic growth.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Micro, Small and Medium Enterprises (MSMEs)

According to Chapter 1 of the Micro, Small and Medium Enterprises Law Number 20 of 2008, micro, small and medium enterprises in the study (Sarmigi, 2020) are:

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- a. Micro Business is a productive business owned by an individual and/or a separate business entity that meets the very small business standards set out in this Law.
- b. Small business is a productive and independent economic business run by an individual or business entity, which is owned and controlled either directly or indirectly by, or directly or indirectly is an open subsidiary or not a subsidiary of which it is a part. Small and medium enterprises within the meaning of this Law.
- c. Medium-sized enterprise is an independent enterprise that is not a subsidiary or branch of a company, but is run by an individual or company that is owned, controlled by, or a subsidiary of. or a company that is owned, controlled by, or directly or indirectly part of a small or large company. A productive business enterprise is one with a net worth or sales as stipulated in this Law.

MSMEs have a very important role in the development and economic growth of developed and developing countries such as Indonesia. In Indonesia, MSMEs not only play a role in economic development and growth, but also play a very important role in overcoming the problem of unemployment. Micro-enterprise growth is a source of increased employment opportunities and income (Sari, 2019).

2. Economic Growth

Economic growth refers to the development of economic activity in which the goods and services produced by a society increase and the welfare of society increases. Therefore, to determine the economic growth achieved, it is necessary to calculate real national income using fixed prices, namely typical prices in the selected base year. Therefore, economic growth measures the success of economic development (Sukirno, 1991). Smith, David Ricardo, Thomas Robert Malthus, John Strout Mill, and classical economists Robert Solow and Trevor Swan found that there are four basic factors that affect economic growth, namely: (1) population, (2) capital goods share of the population, (3) land area and natural resources, and (4) the level of technology used (Sukirno, 1985; 275). An economy is said to grow or develop if the level of economic activity is higher than the level achieved in the previous period (Nuraini, 2017).

Simon Kuznet, one of the great economists who won the Nobel Prize in Economics in 1971, defined economic growth as a long-term increase in a country's ability to provide various economic goods to its people. The increase in capacity itself is determined or made possible by technological, institutional, or ideological progress or adaptation to existing needs (Saputra, 2016) (Yuniarti et al., 2020).

According to Todaro, there are three main indicators that can affect a country's economic growth: technological progress, population growth, and capital accumulation (Stephanus, 2023).

1. Test Persial (t)

The t test is to test how the influence of each independent variable individually on the related variable. Testing is done with one-way testing with the hypothesis;

a) $H_a = \beta > 0$, meaning that there is a significant influence between the independent variable () on the dependent variable (Economic growth)

b) $H_o = \beta_i = 0$, meaning that there is no significant influence between the independent variable (Human Development Index) on the dependent variable (Economic growth).

c) Significant level = 0.05

2. Coefficient of Determination

The coefficient of determination (R^2) is a coefficient used to measure the ability of the model to explain how much influence the dependent variable has on the independent variables. The coefficient of determination is between 0 and 1. If the value is close to 1, it means that the independent variable (independent) provides almost all the information needed to predict the dependent variable (dependent). However, if the value of R^2 decreases or approaches 0, it means that the ability of the independent variables (independent) in explaining the variables is relatively limited.

The Effect of MSMEs on Economic Growth in MSMEs

According to Tambunan (2012: 22), Micro, Small, and Medium Enterprises (MSMEs) are independent productive business units run by individuals or companies in

any sector of the economy. In general, the definition of Micro, Small, and Medium Enterprises (MSMEs) is a business that produces goods and services using primary raw materials, based on the utilisation of local natural resources, human resources, and traditional artefacts. The characteristics of small and medium-sized enterprises are that raw materials are easily available, the technology used is simple, technology transfer is easy, and basic skills are generally passed down from generation to generation and have very broad market opportunities, most products are absorbed locally. Local, domestic and other markets have export potential. Certain products exhibit distinctive features associated with local cultural and artistic production and provide economic benefits and advantages to economically vulnerable local communities (Halim, 2020).

From the results of research conducted by (Sipur & Almastoni, 2021) which states that MSMEs have an influence on Indonesia's Economic Growth. This means that if MSME activities increase, the economic sector will also increase and the Indonesian economy will grow. Although MSMEs tend to grow with varying growth rates, their contribution to economic growth can still increase. Indonesia's economic growth is also on an upward trend, although there are fluctuations in growth rates.

H1: The development of MSMEs has a positive and significant effect on economic growth in North Luwu Regency.

3. Conceptual Framework

Based on the theoretical basis and previous research, the following conceptual framework can be prepared:

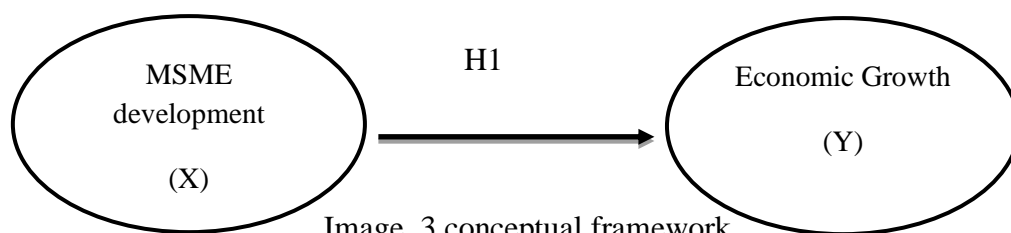


Image. 3 conceptual framework

RESEARCH METHODS

A. Type of Research

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This type of research uses quantitative methods to explain the contribution of micro, small and medium enterprises.

B. Source and Method of Data Collection

This research uses time series data issued by the Central Statistics Agency (BPS) and the Office of Trade, Industry, Cooperatives and SMEs of North Luwu Regency.

C. Operational Definition of Variables

1. MSME development (X) is an effort made by the government, the business world, and the community to empower Micro, Small and Medium enterprises through the provision of facilities, guidance, assistance, strengthening assistance to grow and improve the ability and competitiveness of MSMEs.
2. Economic Growth (Y) is a change in the level of economic activity that takes place from year to year due to an increase in community production output.

D. Data Analysis Method

a. Simple linear regression

According to (Surtini, 2022), 'linear regression analysis between one independent variable (X) and the dependent variable (Y)'. This analysis is to determine the direction of the relationship between the independent variable and the dependent variable whether positive or negative and to predict the value of the dependent variable if the value of the independent variable increases or decreases. The simple Linear Regression Formula is as follows:

$$Y = a + bx + e$$

Where:

Y = Dependent Variable

X = Independent Variable

a = Constant

b = Regression Coefficient

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e = Error

RESULTS AND DISCUSSION

A. RESULTS

Table 1. Descriptive Analysis Results

YEAR	UMKM DEVELOPMENT (X)	ECONOMIC GROWTH (Y)
2014	12.700	8.82
2015	12.820	6.67
2016	12.900	7.49
2017	12.920	7.6
2018	13.100	8.39
2019	13.220	7.11
2020	13.300	-59,0
2021	13.420	3.9
2022	13.500	4.54
2023	13.520	5,18

Source: North Luwu Industry, Trade,
Cooperatives and SMEs Office, and
North Luwu Central Bureau of Statistics
2023

a. Descriptive Analysis Results

descriptive analysis can be seen that, table.1 is the level of MSME development and economic growth in North Luwu Regency in 2014-2023. In 2014, the average value of MSME development was 12,700 then increased from 2015 to 2023. Meanwhile, economic growth in 2014 was 8.82. Then in the following year, namely in 2015, it decreased by 6.67, then in 2016 it increased by 7.49 until 2018. Then in 2019 it

decreased by 7.11 in the following year it experienced a drastic decline to -59.0. Then in the following year in 2021 it increased by 3.9 and continued to rise until 2023.

Partial Test Results

Table 2. Regression Results

Models	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	83,470	34,419		2,425	,042
THE DEVELOPMENT OF MSMEs	5,903	2,619	,623	3,454	,024

Source: SPSS output, 2024

Based on the table of t test results above, it can be seen that the significant value of MSME development is $0.024 < 0.05$ and the t value is $3.454 > t_{table} 2.306$, which means that the MSME development variable partially has a significant effect on economic growth.

Based on the table above, the regression equation can be found as follows:

$$Y = a + bX + e$$

$$Y = 83.470 + 5.903X + e$$

The results of the simple linear regression equation above can be interpreted as follows:

1. The constant value of 83.470 states that if the MSME development variable is constant or equal to zero, it means that the value of the economic growth variable is 83.470.
2. The regression coefficient value of MSME development is 5.903, which means that if the MSME development variable increases by one unit, the dependent variable, namely economic growth, will increase by 5.903.

Table 3. Coefficient of Determination Analysis Results

Models	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.623 ^a	.388	.312	2,32472

Source: SPSS output, 2024

The R value in table 3 above is 0.623, this proves that there is a strong relationship between X1 and X2 because the value is in the interval 0.60 - 0.799. The adjusted R Square value of 0.388 means that the development of MSMEs has an effect of 38.8% on economic growth. The remaining 61.2% is influenced by other variables not included in this research model.

B. DISCUSSION

Based on the results of the significance test of the MSME development variable where the significance value is $0.024 < 0.05$ and the t value is $3.454 > t \text{ table } 2.306$, it is proven that the development of MSMEs has a significant effect on economic growth in North Luwu Regency. This shows that H1 is accepted and rejects H0. This research is in line with research (Sipur & Almastoni, 2021) which states that MSMEs have an influence on economic growth in Indonesia. However, it is contrary to research conducted by (Sari, 2019) which states that there is no partially significant effect of MSMEs on economic growth.

The results of the research conducted show that MSMEs have a positive and significant effect on economic development in North Luwu Regency. Thus, these two factors are things that must get attention together to increase business development.

Based on the above findings, this study is consistent with research (Damayanti, 2021). The study states that government efforts to strengthen business potential are carried out in several areas such as production and processing, marketing, and human relations. Resources, Design and Technology.

Based on the results of research and interviews conducted, the inhibiting factor of the SME empowerment process carried out by DP2KUKM North Luwu Regency on the economy is the lack of knowledge in the field of technology. (Negara & Makassar, n.d.)

CONCLUSIONS AND SUGGESTIONS

A. CONCLUSIONS

Based on the results of hypothesis testing and discussion of this study, it can be concluded that the development of MSMEs has a significant effect on economic growth in North Luwu Regency.

B. Suggestion

Suggestions for business actors as explained, that economic development is an important factor in the success of a business for it is necessary to increase knowledge about the economy for business actors so that in running their business there is an increase in terms of allocating good income for future business in order to attract customers from various regions. Meanwhile, for further researchers used for this study only one variable, therefore in further research can add other variables related to economic development.

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