



The influence of the development of small and medium enterprises on economic growth in the SME sector in Indonesia

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ABSTRACT

The role of Small and Medium Enterprises (SMEs) in accelerating economic growth is very important, this can be seen from their contribution to the balance of payments through export activities and their ability to absorb a large number of workers, namely 70% of the total workforce in Indonesia. This study aims to analyze the influence of the development of Small and Medium Enterprises (SMEs) on economic growth in the SME sector in Indonesia. In this study used the panel data method with the Fixed Effect Model. The data used are secondary data in the form of SME GDP, SME workforce, SME exports, number of SME units, and SME investment from 2000-2009. The results of the analysis using the panel data regression method show that SME exports, the number of SME units, and SME investment has a positive and significant effect on economic growth in the SME sector. Meanwhile, the SME workforce variable has no significant effect on economic growth in the SME sector because the labor absorbed is not proportional to the added value generated.

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1. INTRODUCTION

Economic development is very important in a country, especially in increasing economic income and improving the welfare of its people. Indonesia has enjoyed a period of high economic growth for a long period of time, until the arrival of the exchange rate crisis escalated into a multi-dimensional crisis that began at the end of 1997.

When the 1998 economic crisis occurred, only the SME sector survived the economic collapse, while the larger sectors were toppled by the crisis. This crisis has resulted in a change in the position of actors in the economic sector. Large businesses one by one went bankrupt because imported raw materials increased drastically, debt repayment costs increased as a result of the declining and fluctuating exchange rate of the rupiah against the dollar. The slumping banking sector also exacerbated the industrial sector in terms of capital. Many companies are no longer able to continue their business because of high interest rates. In contrast to SMEs, most of which are still surviving, even tending to increase.

It was proven that during the global crisis that occurred some time ago, SMEs were present as a solution for a healthy economic system. SMEs are one of the industrial sectors that have little or no impact from the global crisis that has hit the world. With this evidence, it is clear that SMEs can be taken into account in increasing market competitiveness and stabilizing the existing economic system.

In Indonesia, we often hear about the hope for reviving the people's economy because of the experience during the multidimensional crisis in 1997-1998, small businesses have proven capable of maintaining the continuity of their business, even playing a rescue function in several sub-sectors of activity. This rescue function is immediately visible in the sectors of supplying the people's basic needs through production and normalization of distribution. At least this evidence has given rise to new optimism for the majority of people who control a small portion of resources about their ability to become a growth engine for economic recovery.

In economic development in Indonesia, SMEs are always described as a sector that has an important role, because most of the population has low education and lives in small business activities in both traditional and modern sectors. As well as being able to absorb a lot of manpower. The role of small businesses is a prioritized part in every stage of development planning which is managed by two departments, namely the Ministry of Industry and Trade, and the Ministry of Cooperatives and SMEs.

The role of SMEs in accelerating economic growth is very important. The fact is that there is an imbalance between the contribution of SMEs in providing employment and the contribution in creating added value. The faster growth of SMEs compared to large business groups will improve the overall business structure and income distribution. Judging from the contribution of SMEs to GDP, SMEs have an important role in business development in Indonesia. SMEs are also the forerunner of the growth of large businesses. Almost all big businesses start from SMEs. Small and medium enterprises (SMEs) must continue to be upgraded and active in order to advance and compete with large companies. If not, SMEs in Indonesia which are the heart of the Indonesian economy will not be able to progress and develop.

The SMEs themselves as the party being developed, can take steps together with the government. Apart from the government and SMEs, the role of the banking sector is also very important in relation to all matters regarding funding, especially in terms of lending or setting banking policies. Furthermore, related to the availability of funds or capital, the role of both domestic and foreign investors cannot be ruled out either. The 'rules of the game' for business actors (including SMEs) so that efforts to develop SMEs cannot only be carried out partially, but must be integrated with national economic development and carried out on an ongoing basis.

Indicators of SME development can also be seen from exports in the SME sector, opportunities to develop SMEs that will enter the export market still have very good prospects and have considerable potential in the future. The Central Bureau of Statistics (2003) stated that the number of SMEs was recorded at 42.3 million or 99.90% of the total number of business units. SMEs (Small and Medium Enterprises) absorb a workforce of 79 million or 99.40% of the total workforce. The contribution of SMEs in the formation of GDP is 56.70%. Then the contribution of SMEs to the country's foreign exchange earnings through export activities amounted to IDR 75.80 trillion or 19.90% of the total export value. Until now the majority of the Indonesian economy is supported by this sector. At least, the micro, small and medium enterprise sector is able to absorb around 70% of the informal workforce.

In this study, the authors made research limitations, namely: the development variables of SMEs consisting of SME workers, SME exports, number of SME units, and investment in the SME sector. By looking at the effect on GDP in the SME sector from 2000 to 2009. Then data on the development of SMEs from each variable is reviewed from 3 sectors, namely: (1) Agriculture, Livestock, Forestry and Fisheries; (2) Mining and Quarrying, (3) Processing Industry, from 2000 to 2009.

2. RESEARCH METHOD

The scope of this study is to analyze the influence of several SME development variables such as SME workforce, SME exports, number of SME units, and investment in the SME sector on economic growth in the SME sector in Indonesia from 2000 to 2009. The data used in this study are data sourced from

the Ministry of Cooperatives and SMEs in Indonesia. The data used in this study uses macro indicator data for SMEs consisting of SME workforce, SME exports, number of SME units, investment in the SME sector, and SME GDP from 2000 to 2009 obtained from the Ministry of Cooperatives and SMEs. Panel data is a combination of cross-sectional data and time series data. Panel data was introduced by Howles in 1950.

3. RESULTS AND DISCUSSIONS

Analysis

1. Development of small and medium enterprises

In economic development in Indonesia, SMEs are always described as a sector that has an important role, because most of the population has low education and lives in small business activities in both traditional and modern sectors. The role of small businesses is a prioritized part in every stage of development planning which is managed by two departments, namely the Ministry of Industry and Trade, and . Department of Cooperatives and SMEs.

In the era of globalization and free trade, SMEs have a new role that is even more important, namely as one of the main factors driving the development and growth of non-oil and gas exports and as a supporting industry that makes components and spare parts for large enterprises (UB) through production linkages. for example in the form of subcontracting. Not only UB, but UKM can also play an important role in export growth and can compete in the domestic market for imported goods as well as in the global market. In Indonesia, SMEs are expected to become one of the important players in creating new markets for Indonesia, not only domestically but more importantly abroad, so they are an important source of trade and services balance surplus or balance of payments.

2. Descriptive Analysis of GDP of Small and Medium Enterprises by Economic Sector 2000-2009 Based on Constant Prices (Billion Rupiah) in Indonesia

Gross Domestic Product (GDP) is the total national income and expenditure on the output of goods and services. Gross domestic product is often considered the best measure of economic performance. The purpose of GDP is to summarize economic activity in a certain monetary value over a certain period of time.

There are two ways to look at GDP. One way is to look at GDP as the total income of everyone in the economy. Another way of looking at GDP is as the total expenditure on the economy's output of goods and services. GDP is presented in two valuation versions, namely "at current prices", namely using current year prices and "at constant prices", namely using price data for a certain year (base year).

In table 1, it can be seen that the contribution of the three export-oriented SME sectors, namely (1) Agriculture, Livestock, Forestry and Fisheries; (2) Mining and Quarrying; (3) Processing Industry experienced an increase from 2000 to 2009 continues to increase. The first largest contributor is the Agriculture, Livestock, Forestry and Fisheries sectors. With the biggest donation occurred in 2009 as much as Rp. 284,352.7 (billion), one reason that can be accepted is the low output price of agricultural primary products which coincides with the increase in input prices, especially those sourced from imports. The agricultural sector, which is very much dominated by food agriculture, is indeed very limited in its ability to become a source of growth, especially rice.

Table 1. GDP of Small and Medium Enterprises by Economic Sector 2000-2009 at Constant Prices (Billion Rupiah)

Year	Sector		
	PPKP	PPG	IP
2000	207054.1	13,813.2	99,687.0
2001	213,587.9	14,267.5	103,547.1

2002	221017.1	14,975.6	107,297.6
2003	229,575.7	15,727.9	113,460.7
2004	236,192.4	16,468.7	118,944.7
2005	242,883.8	17,624.2	123,799.1
2006	251,123.1	18,906.1	161,244.2
2007	260,053.8	20,357.4	167,729.9
2008	272,882.2	21,704.5	172,187.0
2009	284,352.7	23,155.6	180,755.4

The ability of the workforce to create added value is very different from one business group to another and reflects the characteristics of each. Labor is the basic capital for economic development and growth, if the workforce as an economic resource can be used effectively and efficiently. Along with the growth of the SME business unit, the absorption of labor has also experienced a significant increase.

Table 2. Small and Medium Enterprise Labor Absorption by Economic Sector in 2000-2009

Year	Sector		
	PPKP	PPG	IP
2000	34,525,866	334,354	8,565,920
2001	37,122,242	436,079	8,147,718
2002	38,116,561	430,458	8,284,726
2003	39,302,805	481,344	8,200,177
2004	37,650,304	528,242	8,350,149
2005	38,833,911	564,365	9,283,965
2006	42,034,597	856,817	9,980,481
2007	42,288,163	940,733	10,470,658
2008	42,222,835	971,274	10,768,907
2009	42,560,349	1,046,418	11,037,496

The number of workers in the SME group is in the agricultural sector, this is because Indonesia is an agricultural country where most of its territory is strategic in developing the agricultural sector. So that most of the population who occupy agricultural areas work as farmers. In table 4.2 it can be seen that from 2000-2009 the movement in the level of employment was almost the same with different values, that is, it increased every year, but there was also a decrease but not too significant that occurred in the manufacturing industry sector in 2000 as many as 8,565. 920 people decreased to 8,147,718 in 2001.

The non-oil and gas export performance of Small, Medium and Large Enterprises by economic sector during 2000 to 2009 showed that more than 85% of national exports were dominated by the manufacturing sector. In general, the total exports of the manufacturing sector experienced a sharp increase from year to year. This increase may be due to the ability to develop investment to produce export commodities in medium-scale businesses that are still not constrained by the impact of the economic crisis that has not fully recovered and the contribution of young professionals who leave or get laid off who then join or establish their own businesses are able to improve export performance in business groups this medium.

Table 3. Exports of Goods by Small and Medium Enterprises by Economic Sector

Year	Sector		
	PPKP	PPG	IP
2000	10,440,139	753,699	15,474,958
2001	10,703,452	845,922	14,133,871
2002	10,698,489	1,027,878	15,630,368
2003	10,596,996	1,037,831	15,515,359
2004	12,339,057	1,196,830	16,845,341
2005	13,399,433	1,417,414	18,209,336
2006	11,994,461	723,422	20,327,093
2007	10,514,276	741,027	24,162,054
2008	11,773,616	848,157	28,827,049
2009	10,776,797	873,738	27,768,052

Table 4. Number of Small and Medium Enterprises Units by Economic Sector in 2000-2009

Year	Sector		
	PPKP	PPG	IP
2000	23,518,616	151,007	2,618,973
2001	24,014,278	200,060	2,557,549
2002	24,947,009	178,990	2,747,533
2003	25,345,988	203,692	2,659,824
2004	25,799,906	210,322	2,740,070
2005	26,259,895	235,400	2,795,237
2006	26,209,073	246,414	3,163,050
2007	26,383,268	263,250	3,179,143
2008	26,227,297	261,341	3,238,111
2009	26,369,299	271,929	3,268,496

When viewed from a sectoral perspective, more than half of the MSME population in 2012 was engaged in the agriculture, animal husbandry, forestry and fisheries sectors; although the increase from year to year is not significant. This is due to technological limitations and a lack of skills in developing this sector.

3. Partial Analysis of the Development of Small and Medium Enterprises on Economic Growth in Indonesia (individuals)

This test was conducted to test whether the independent variables (SME workforce, SME exports, number of SME units, and SME investment) have a partial effect on the dependent variable (economic growth in the SME sector), by comparing each t-statistic value from the regression with t-table in rejecting or accepting the hypothesis.

The SME export variable has a significant and positive effect on economic growth in the SME sector. This means that the increasing number of SME exports, the economic growth in the SME sector will increase. The regression coefficient of the export variable is 1.408327, meaning that every 1 percent increase in SME exports can lead to an increase in economic growth in the SME sector by 1.408327 percent, *ceteris paribus*. Empowerment of SMEs can increase macroeconomic stability, because they use local raw materials and have export potential, so that they will help stabilize the rupiah exchange rate and inflation rate.

Empowerment of SMEs will drive the real sector, because SMEs generally have high industrial linkages. In other words, empowering SMEs will expand employment opportunities and increase income so that they can support development and economic growth. The variable number of SME units has a significant and positive effect on economic growth in the SME sector, meaning that if the number of SME units increases, economic growth in the SME sector also increases. The variable regression coefficient of the level of the number of SME units is 12.57809, meaning that every 1 percent increase in the number of SME units can lead to an increase in SME economic growth by 12.57809 percent, *ceteris paribus*.

The SME investment variable is indicated by the t statistic value (2.833526) > t table (1.72), so this variable has a positive and significant effect on economic growth in the SME sector in Indonesia. This means that the more SME investment increases, the economic growth in the SME sector will increase.

4. Analysis of the Development of Small and Medium Enterprises on Economic Growth in Indonesia simultaneously (together)

To test whether the independent variable simultaneously influences the dependent variable, the F test is used by comparing the F-statistics with the F-table. From the regression results obtained an F-statistic value of 440.7763. At the confidence level $\alpha = 5\%$, $k = 7$, and $n = 30$, then an F-table was obtained. Based on the estimation results, it can be seen that F-statistic (440.7763) > F-table (2.33), then H_0 is rejected, meaning that the independent variables (SME workforce, SME exports, number of SME units, and SME investment) simultaneously have a significant effect on the dependent variable (economic growth in the SME sector) at a confidence level of 95 percent.

Discussion result

1. SME Workforce

From the results of the analysis of the SME workforce variable, it has no effect on economic growth in the SME sector in Indonesia with a significance value of 0.7339. This is because the probability value of the labor value is greater than the real level. This is in accordance with the theory which states that an increase in the number of people every year through birth and migration of people in a country results in an increase in the labor force which means an increase in the supply of labor, and the limited number of jobs results in visible differences between the supply of labor or the labor market. .

This is in accordance with research conducted by Anderson (1982) in Tulus Tampubolon (2002) which states that the higher the per capita income level in a country, the smaller the share of SME workforce. This is because the increase in per capita income in developing countries is likely to be influenced by sectors other than SMEs, namely the large business sector. Evidenced by the contribution of national GDP which is still dominated by large businesses compared to small businesses. So under these conditions, if there is an increase in terms of added value, quantity or proportion outside SMEs, it will affect the share of the UKM workforce. Where in these conditions there is a possibility that there is an increase in employment in large businesses.

2. SME Export

For the SME export variable, there is a significant and positive influence on SME economic growth with a significance level of 0.0003. This is in line with the theory of several economists David Ricardo, Adam Smith and Mill who have shown that foreign trade can make several contributions which will ultimately accelerate the economic development of a country. If the views of the three economists are combined, it can be said that the classical economists put forward three important contributions of foreign trade in economic development.

The first advantage, put forward by Ricardo, states: when a country has reached the level of full employment, foreign trade allows it to achieve a higher level of consumption than might be achieved without this activity. Meanwhile, Smith and Mill put forward two other advantages, namely: (1) it allows a country to expand the market for its products, (2) it allows the country to use technology developed abroad, which is better than what is available in the country.

3. Number of SME Units

The variable number of UKM units has a significant and positive effect, with a significance level of 0.0247. This is in accordance with research conducted by Wirda Hanum (2010) that an increase in the number of business units can result in an increase in the value generated so that GDP in the SME sector increases.

4. SME Investment

The SME investment variable has a significant and positive effect on SME economic growth with a significance value of 0.0133. This is in line with Harrod-Domar's theory that investment has a significant influence on economic growth. Increased investment will increase added value or income for the future because the added value of an investment will always increase from year to year.

In addition, this research is also in accordance with the results of previous research conducted by Maharani Tejasari (2008) which concluded that investment has a positive relationship with economic growth with an investment coefficient value of (0.85055) because an increase in GDP cannot be separated from an increase in investment. Investments invested in the SME sector can boost output and demand for inputs, thereby increasing income and expanding employment opportunities, which in turn can boost economic growth.

4. CONCLUSION

Based on the results of the analysis of the research, it can be concluded, From the estimation results of panel data with the Fixed Effect Model (FEM) it was found that SME exports, the number of SME units, and SME investment had a significant effect on economic growth in the SME sector in Indonesia in 2000 to 2009 While the SME workforce did not affect economic growth in the SME sector in Indonesia from 2000 to 2009. In this study, the most dominant variable affecting economic growth in the SME sector in Indonesia was SME exports, this is in line with the theory of several economists David Ricardo, Adam Smith and Mill who have shown that foreign trade can provide several contributions which will ultimately accelerate the economic development of a country.

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