

Original Research Article

THE EFFECT OF GOVERNMENT POLICIES ON THE SUCCESS OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) IN REGIONAL DEVELOPMENT IN NORTH TAPANULI REGENCY

Abstract

This research delves into the Micro, Small, and Medium Enterprises (MSMEs) sector in North Tapanuli Regency, North Sumatra, focusing on the impact of government policies on the success of MSMEs. The research, conducted from October 2023, utilizes interviews and documentation as data collection methods. From a total of 39,856 MSME units, a simple random sample of 100 respondents was selected. Key variables include Monetary Policy (X1), Fiscal Policy (X2), and MSME Success (Y1). Monetary Policy is related to People's Business Credit, while Fiscal Policy includes aspects of taxation and financing. MSME success is measured through growth, product value, funding access, information, business expansion, market penetration, and social, cultural, and economic impact. Data analysis employs Partial Least Square (PLS) to identify the impact of government policies. Results reflect a positive contribution of fiscal and monetary policies to MSME success. Model evaluation considers validity and reliability, while the contribution of MSMEs to the Regional Gross Domestic Product (GDP) is analyzed through Proportional Analysis. This research adopts a holistic approach, combining qualitative and quantitative elements to provide an in-depth understanding of the role of MSMEs in North Tapanuli Regency and its implications for the regional GDP. The findings aim to serve as a policy foundation for the local government in supporting the growth and sustainability of MSMEs.

Keywords: MSMEs, Government Policies, North Tapanuli, Region, Regional Gross Domestic Product (PDRB)

1. INTRODUCTION

The economic growth of a country can be measured through the Micro, Small, and Medium Enterprises (MSMEs) sector, which plays a central role in driving the economy. Rahayu (2014) states that MSMEs have the potential to expand employment opportunities, provide comprehensive economic services, and contribute to income distribution and economic growth. Furthermore, MSMEs can serve as a pillar of national stability.

In the context of Indonesia, MSMEs are not only the backbone of the economy but also play a crucial role in the formation and growth of the Gross Domestic Product (GDP). Tambunan et al. (2005) note that MSMEs contribute approximately 59.08% to the GDP, make a significant contribution to national exports, and create jobs for a growing population at a rate of 6.4% per year.

Although MSMEs have a strategic role, the COVID-19 pandemic poses serious challenges to their sustainability. The impact of Large-Scale Social Restrictions (PSBB) and a decrease in demand for goods and services has led to various issues, including the liquidity of business actors (OECD, 2020; Febrantara, 2020). The

government has responded with various policies, such as social assistance, tax incentives, and credit relaxation, to ensure the sustainability of MSMEs.

Lumempow et al. (2021) explain that government policies, such as the Productive Micro Business Assistance (BPUM), have a positive impact on MSME development. This positive influence is also found in tax incentive policies and working capital expansion (Natasya et al., 2021). Thus, government policies play a crucial role as an instrument in supporting the growth of MSMEs.

In efforts to support MSMEs, the government needs to coordinate effectively with other stakeholders, such as business actors and academics. Collaboration and synergy among all parties can create a conducive environment for MSME development. Daulay (2018) emphasizes that collaboration between business actors, the government, and academics in designing strategies for creative economic development is key to success.

Monetary policies, such as People's Business Credit (KUR), and fiscal policies, such as tax incentives, play a role in providing financial support and influencing the success of MSMEs (Welch & Gerry, 2016). The implementation of these policies creates a conducive environment for MSME growth, given the vital role of this sector in driving the national economy.

The challenges of MSME development not only stem from internal aspects such as capital and marketing but also from external factors, including the availability of industrial areas and high shipping costs (Wuryandani et al., 2013). To overcome these constraints, the government needs to design policies that support the sustainability of MSMEs amid the dynamics of the global economy.

To date, various studies have highlighted the role of the government in MSME development. As stated in Rahmah et al.'s (2020) research focusing on the government's role in increasing the income of MSMEs. However, limitations in coordination between institutions and communication with business actors pose their own challenges, as found by Purba (2018).

Through a review of literature and previous research, it is understood that MSMEs play a central role in the Indonesian economy. In this chapter, we will further explore the current conditions of MSMEs, the challenges they face, and the government's efforts to support the growth of this sector.

In their study titled "The Role of the Government in Increasing the Income of MSMEs," Rahmah et al. (2020) aimed to understand the government's role in the income levels of MSMEs in Wonosobo Regency. Natasya and Hardiningsih (2021), in their research titled "Government Policies as Solutions to Enhance MSME Development During the Pandemic," aimed to analyze the impact of social assistance, tax incentives, and working capital expansion on the development of MSMEs during the Covid-19 pandemic.

Fajri and Rizki (2018) discussed the Analysis of the Agricultural Sector's Contribution to the Regional Gross Domestic Product of Aceh. This research aimed to determine the analysis of the agricultural sector's contribution to the GDP of districts/cities in

Aceh province. Maisaroh (2017) discussed the Analysis of the Role and Contribution of the Agricultural Sector to Regional Growth in an Islamic Perspective. The purpose of this research was to determine the role of the agricultural sector in Tulang Bawang Regency. Whether the role of the agricultural sector is a basis or non-basis. The research type is quantitative and sourced from documentation from data available at the Central Statistics Agency of Tulang Bawang Regency and the Tulang Bawang Regency Agriculture Office. The analysis used Location Quotient analysis, DLQ, and Shift Share analysis.

The Micro, Small, and Medium Enterprises (MSMEs) sector in North Tapanuli Regency plays a crucial role in supporting the government's goal of improving community welfare. Wong and Tjosvold's (2015) study highlights the importance of a competent government in creating social trust that supports business growth. The sustainability of MSMEs in this region is also closely related to the monetary and fiscal policies of the government.

The problem formulation addresses essential questions about the condition of MSMEs, the influence of government policies, and the contribution of MSMEs to the GDP for regional development. The research objectives involve identifying MSMEs, analyzing the impact of government policies, and evaluating the contribution of MSMEs to the GDP.

The benefits of this research are not limited to the academic level but also contribute to the Local Government of North Tapanuli Regency. The research results are expected to serve as a basis for policymaking related to the development of MSMEs in the region, while this research can also serve as a reference for other researchers conducting similar studies on MSMEs. As a basis for further development, this research can provide a foundation for in-depth research with different methods and measurement tools.

2. RESEARCH METHODOLOGY

This study specifically investigates MSMEs in North Tapanuli Regency, North Sumatra, with the research duration starting in October 2023. Data collection is conducted through interviews with MSME units as the main source of information, and a documentation method involving books, articles, images, and notes from various sources. The research population includes various types of MSMEs, such as fashion, culinary, agriculture, trade, crafts, furniture, tourism, information technology, automotive, and services, totaling 39,856 MSME units. The sample is randomly selected, producing 100 respondents from the MSME community.

The main variables in this study consist of Monetary Policy (X1), Fiscal Policy (X2), and MSME Success (Y1). Monetary Policy (X1) is related to government measures in 2015, especially regarding People's Business Credit (KUR). Its indicators involve understanding of monetary policy, decision-making on KUR, principles of credit provision by banks to MSME actors, and the impact of credit policy on business after receiving credit.

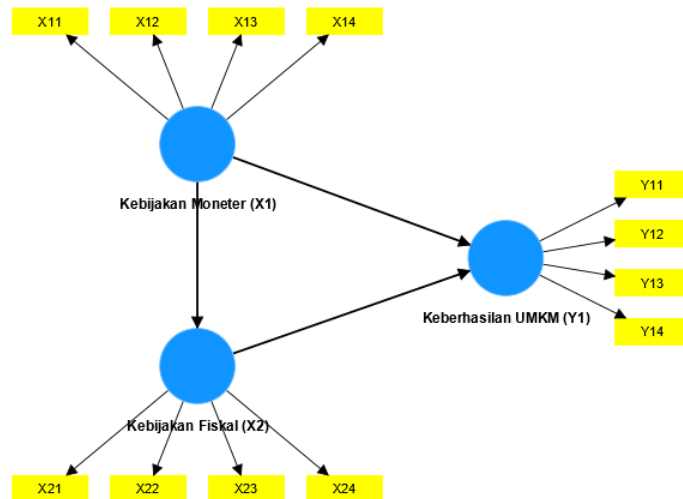


Figure 1 Research Model

The Fiscal Policy variable (X2) includes government policies involving government consumption, tax rates, subsidy rates, and foreign loan funds. Its indicators include the 1% tax policy for MSMEs, the impact of Law No. 20 of 2008 on MSMEs for MSME actors, policies on capital, financing, and information facilities, as well as the improvement of MSME success based on the impact of government policies.

Next, the MSME Success variable (Y1) is an output that reflects success in improving the capabilities of MSMEs, which in turn strengthens the business and economy of the community. Indicators of MSME success include MSME growth, product value, access to funding comparable to large enterprises, information access, business expansion, market penetration, and business development for social, cultural, and economic aspects.

Data analysis is conducted using the Partial Least Square (PLS) method to measure the relationships between these variables and identify the impact of government policies on MSME success. The analysis method involves data description to provide a factual and accurate overview. The use of the Likert scale with categories interpreted according to the 5-scale definition in the research questionnaire helps evaluate respondents' responses to specific questions.

Multivariate statistical analysis using Partial Least Square (PLS) focuses on the outer model involving convergent validity, discriminant validity, and composite reliability. Furthermore, inner model analysis is conducted by evaluating the coefficient of determination (R^2) and Q^2 values to measure the strength of the structural model hypotheses.

To answer the research objective regarding the contribution of MSMEs to the GDP of North Tapanuli Regency, Proportional Analysis is used with the formula for the contribution of MSMEs to the GDP, where X is the contribution of MSMEs and Y is the Regional Gross Domestic Product.

Thus, this research adopts a holistic approach that combines qualitative and quantitative elements to provide an in-depth understanding of MSMEs in North Tapanuli Regency and their impact on the regional GDP.

3. RESULT AND DISCUSSION

3.1 Tapanuli Utara regency: A Diverse Economic Landscape

This regency, located in the province of North Sumatra, offers geographical and cultural diversity, ranging from lowlands to mountains. With a vast territory, it possesses the potential for natural resources and tourist attractions. The diversity of nature and culture serves as the foundation for sustainable economic development.

The allure of tourism involves captivating mountains, spectacular waterfalls, and the enchanting Lake Toba. Meanwhile, MSMEs in this area showcase the creativity of the community through craft products, traditional textiles, local culinary delights, and agricultural produce. Empowering MSMEs can support inclusive economic growth and preserve local culture.

3.2 MSMEs in North Tapanuli Regency

MSMEs in this regency reflect the diversity of the local economy, with Table 1 providing a detailed overview of the business sectors in this region.

Table 1 Types and Number of MSME Implementers in North Tapanuli Regency

Type of MSME	Numbers of Implementer
Fashion (Weaving and Tailoring)	8,286
Culinary	4,701
Agriculture/Trade/Livestock	15,625
Trade	7,392
Crafts	182
Furniture	104
Tourism	91
Information Technology	270
Automotive	380
Services	2,825
Total	39,856

The MSME sector in North Tapanuli Regency demonstrates extraordinary diversity, with the fashion sector, especially the production of woven and traditional "ulos" clothing, being one of the most prominent. With 8,286 business units, the production of ulos not only reflects the beauty of local art but also becomes a significant economic attraction, especially for tourists. Additionally, the culinary sector with 4,701 business units enriches the culinary experience for travelers, while the agriculture, trade, and livestock sector with 15,625 business units supports the local economy with a sustainable approach.

In this diversity, other sectors such as crafts and furniture, trade, and tourism make significant contributions to creating a dynamic and inclusive economic landscape. This diversity is not only an interesting phenomenon but also a potential strength for local economic growth. With 91 business units in the tourism sector, North Tapanuli Regency has successfully developed tourist destinations, including homestays, travel agencies, and local tourism service providers. Through government support and progressive policies, it is expected that these sectors will continue to grow and strengthen the competitiveness of this region in the national economy.

3.3 Types of MSME

The profile of MSMEs in North Tapanuli Regency shows diversity in business sectors. From 100 respondents, the trade sector recorded the largest contribution (32 business actors), followed by the fashion and culinary sectors (21 business actors each). This diversity reflects the interests and potential of entrepreneurs in the creative and culinary sectors, as well as the contributions of other sectors such as agriculture, crafts, furniture, tourism, information technology, automotive, and services.

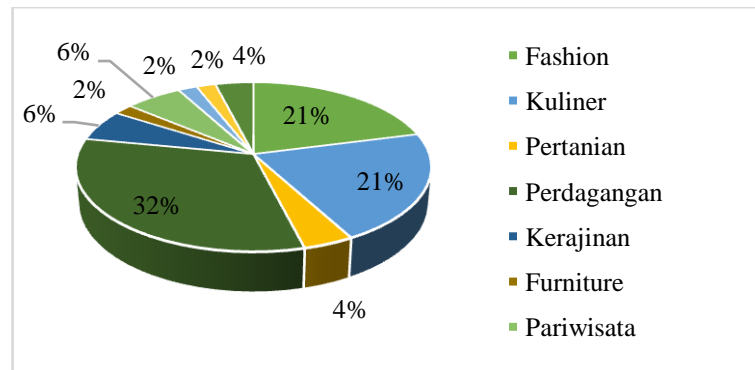


Figure 2 Characteristics of Respondents Based on Types of MSMEs Experience in MSMEs

The profile of MSME experience shows the level of resilience and consistency among business actors. Out of 100 respondents, 35% have been in business for less than 1 year, 47% for 1-2 years, and 18% for more than 2 years. Most MSME actors show a considerable level of experience, reflecting resilience in facing challenges.

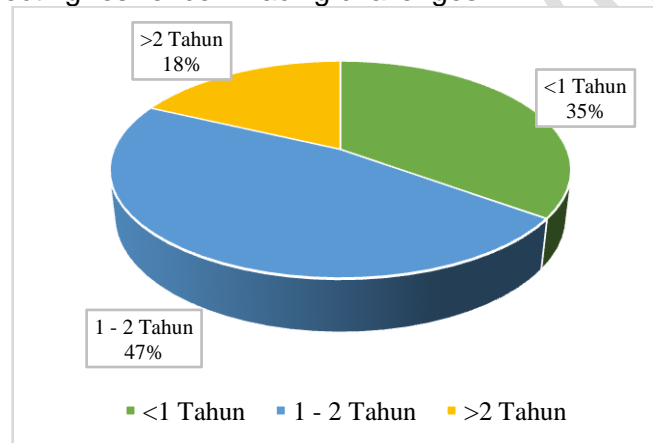


Figure 3 Characteristics of Respondents Based on MSME Experience

3.4 Previous Occupations Before MSMEs

Among the respondents, 65% had previous occupations as unemployed or homemakers. Entrepreneurial motivations varied, with 58% considering business profitable, 24% choosing it because of no other alternative, and others following in the footsteps of parents or being encouraged by friends/neighbors.

3.5 Earning of MSMEs

In the context of the 2023 District Minimum Wage, 40% of respondents have income below the UMK standard, 40% are close to or reach the UMK standard, and 7% exceed the UMK standard. This analysis provides an opportunity to design more specific policies to increase the income of MSMEs that are still below the standard and provide incentives for those who have exceeded the standard.

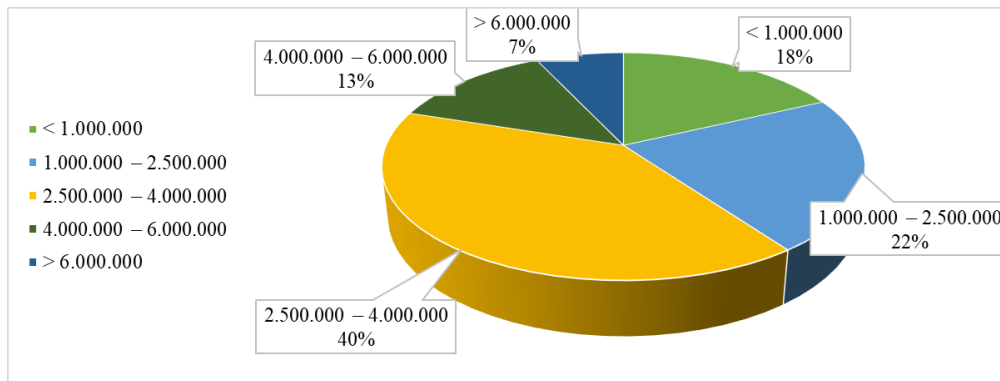


Figure 4 Characteristics of Respondents Based on MSME Income

3.5 Data Analysis

In the first stage of data analysis, validation and reliability testing of the measurement instrument were conducted, instrument accuracy evaluation, and testing of relationships between variables.

3.5.1 Outer Loadings

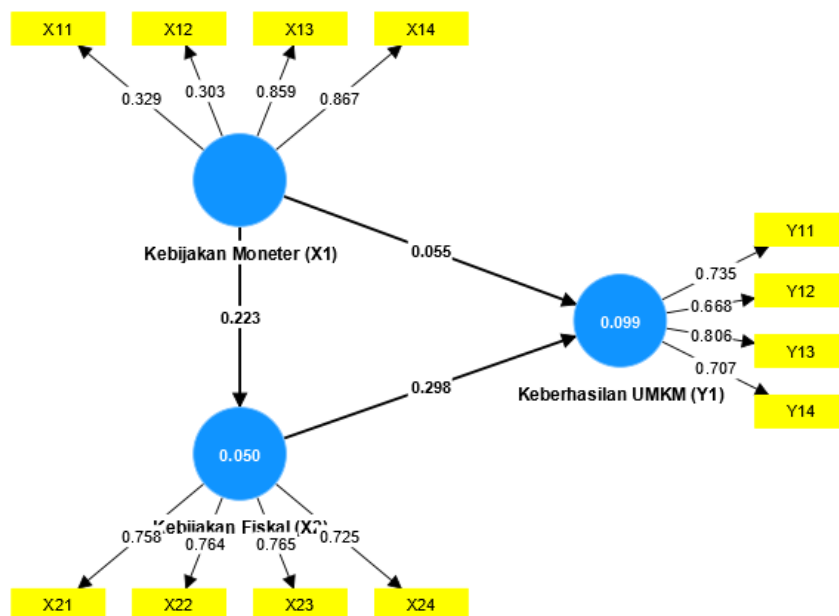


Figure 5 Outer Model Variables: Monetary Policy, Fiscal Policy, and MSME Success

Figure 5 illustrates that in the early stages of statistical analysis, validity and reliability tests were conducted, followed by hypothesis testing using SmartPLS 4.0 for Windows software.

Table 2 Outer Loading Variables: Monetary Policy, Fiscal Policy, and MSME Success

Variable	Indicator	Outer Loading	Note
Monetary Policy (X1)	X11	0,329	Tidak Valid
	X12	0,303	Tidak Valid
	X13	0,859	Valid
	X14	0,867	Valid
Fiscal Policy (X2)	X21	0,758	Valid
	X22	0,764	Valid
	X23	0,765	Valid
	X24	0,725	Valid
MSME Success (Y1)	Y11	0,735	Valid
	Y12	0,668	Valid
	Y13	0,806	Valid

Based on Table 2, it is known that 2 indicators of the Monetary Policy variable do not meet the requirements of the outer loading value in this study, namely the outer loading value < 0.5 . Therefore, indicators from this variable must be removed from the model and not included in the calculations for the next stages. Indicators that do not meet the outer loading value are understanding of monetary policy and decision-making on taking KUR below the outer loading value of 0.5. Other indicators with outer loading values > 0.5 mean that the indicators in these variables are considered to meet the criteria for convergent validity in the adequate and good categories. Next, with the invalid indicators removed from the table above and recalculated using SmartPLS 4.0, it produces a new model image that has been recalculated as follows:

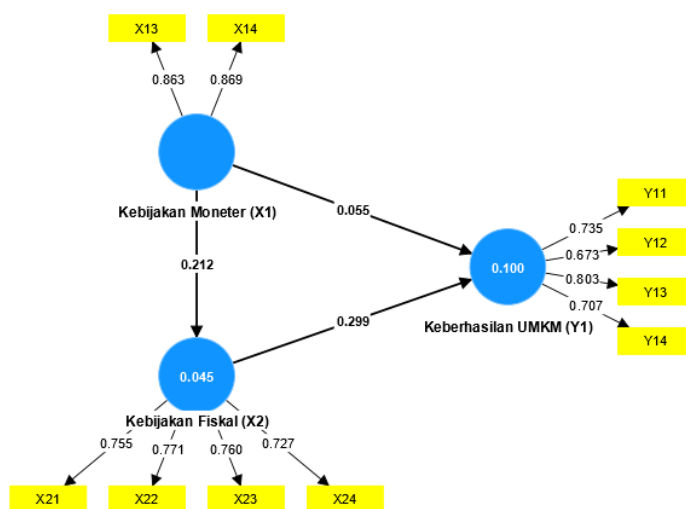


Figure 6 Outer Model Variables: Monetary Policy, Fiscal Policy, and MSME Success after Recalculation

Figure 6 indicates that several indicators have been removed from the model because they do not meet the valid value requirements, so only indicators with valid values are retained.

Table 3 Outer Loading Variables: Monetary Policy, Fiscal Policy, and MSME Success

Variable	Indicator	Outer Loading	Note
Monetary Policy (X1)	X13	0,863	Valid
	X14	0,869	Valid
Fiscal Policy (X2)	X21	0,755	Valid
	X22	0,771	Valid
	X23	0,760	Valid
	X24	0,727	Valid
MSME Success (Y1)	Y11	0,735	Valid
	Y12	0,673	Valid
	Y13	0,803	Valid
	Y14	0,707	Valid

Based on Table 2, it can be concluded that each indicator in the research variable shows a valid Outer Loading value (greater than 0.5). Therefore, these indicators are considered to meet the criteria for convergent validity, and the research can proceed to the next stage of validity testing.

3.5.2 Discriminant Validity

Discriminant Validity is used to ensure significant differences between latent variables.

Table 4 Cross Loading Variables: Monetary Policy, Fiscal Policy, and MSME Success

	Monetary Policy	Fiscal Policy	MSME Success
X12	0,051	0,209	0,863
X13	0,152	0,158	0,869
X21	0,191	0,755	0,240
X22	0,277	0,771	0,184

X23	0,240	0,760	0,132	Valid
X24	0,222	0,727	0,048	Valid
Y11	0,735	0,278	0,017	Valid
Y12	0,673	0,159	0,125	Valid
Y13	0,803	0,236	0,185	Valid
Y14	0,707	0,214	0,024	Valid

Based on Table 4, each indicator has the largest Cross Loading Value on the variable they should measure, indicating a good level of Discriminant Validity.

3.6 AVE, Composite Reliability and Cronbach's Alpha

Table 5 Average Variance Extracted, Composite Reliability, and Cronbach Alpha.

Tabel 5 Average Variance Extracted, Composite Reliability, dan Cronbach Alpha

Variable	AVE	Composite Reliability	Cronbach's Alpha
Monetary Policy	0.534	0.820	0.713
Fiscal Policy	0.567	0.840	0.749
MSME Success	0.750	0.857	0.666

The evaluation results show that this research model has good construct validity and reliability, supporting confidence in the instrument's reliability and the obtained measurement results. This conclusion strengthens the quality of analysis and interpretation in the context of this research.

3.7 Testing the Inner Model (Structural Model)

Testing the Inner Model or Structural Model is carried out to evaluate the relationships between constructs, the significance of values, and R-Square in the Research Model.

3.8 R-Square (Coefficient Determination)

Tabel 6 R-Square

Variable	R-Square
MSME Success	0.621
Fiscal Policy	0.499

Table 6 shows that the R-Square for the MSME Success Variable is 0.621, while the Fiscal Policy Variable has an R-Square value of 0.499. These values indicate that MSME Success can explain about 62.1% of its variance, while Fiscal Policy can explain about 49.9% of its variance. Thus, the impact of MSME Success is categorized as moderate, while the impact of Fiscal Policy is also categorized as moderate.

3.9 Q-Square

The calculation of the Q-Square value in this study is explained as follows :

$$\begin{aligned}
 \text{Q-Square} &= 1 - [(1 - R^2_1) \times (1 - R^2_2)] \\
 &= 1 - [(1 - 0,621) \times (1 - 0,499)] \\
 &= 1 - (0,379 \times 0,501) \\
 &= 0,810
 \end{aligned}$$

With the calculation result above, a Q-Square value of 0.810 is obtained. This value indicates that the research model can explain 81% of the data variance, with the remaining 21% explained by other factors not included in this research model. Thus, this research model has a good fit or Goodness of Fit.

3.10 Relationships Between Variables

3.10.1 Monetary Policy on MSME Success

Monetary policy, especially through the People's Business Credit (KUR) program, shows a significant positive impact on the success of Micro, Small, and Medium Enterprises (MSMEs) in North Tapanuli Regency. The KUR program provides financial access with affordable interest rates, facilitating the development of MSMEs and increasing purchasing power and business profitability.

3.10.2 Fiscal Policy on MSME Success

Fiscal policy, including incentives and specific regulations for MSMEs, provides positive and significant support for the success of MSMEs. Taxes applied wisely, such as special tax policies for MSMEs, and the legal framework of Law No. 20 of 2008, provide incentives and legal certainty that support the growth of MSMEs.

3.10.3 Fiscal Policy through Monetary Policy on MSME Success

Fiscal policy, especially through the reduction of tax burdens, mediates the influence of monetary policy on the success of MSMEs. The impact through fiscal policy as a mediating variable is considered more significant, indicating that fiscal incentives enhance the effectiveness of monetary policy in supporting MSMEs.

From the test results, it can be stated that monetary and fiscal policies positively and significantly influence the success of MSMEs in North Tapanuli Regency. Fiscal policy, with various incentive instruments and regulations, apparently has a positive impact that can be strengthened through the mediation of monetary policy.

3.11 Discussion

The test results illustrate that monetary and fiscal policies play a strategic role in supporting the success of MSMEs. The KUR program and fiscal incentives provide significant access and support for MSME entrepreneurs. In this context, the success of MSMEs is not only measured in economic terms but also in supporting social and cultural values in the region.

These findings emphasize the importance of coordinated policies in supporting MSMEs, which can create a conducive ecosystem for the growth and sustainability of this sector. Local governments can design and implement supportive policies, including tax incentives, flexible regulations, and affordable financing programs. In this policy framework, the cooperation between monetary and fiscal policies shows a greater positive impact, forming a strong foundation for the growth of MSMEs in North Tapanuli Regency.

4. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

The research on the impact of government policies on the success of Micro, Small, and Medium Enterprises (MSMEs) in regional development in North Tapanuli Regency yields several conclusions. Overall, the state of MSMEs in the region is suboptimal, facing challenges such as limited funding access, information gaps, and insufficient product development. Nevertheless, the diversity of business types remains a distinctive feature, albeit requiring enhancement to support regional development effectively.

Government policies, particularly in fiscal and monetary aspects, involving tax incentives and exemptions, prove to have a significant positive impact on the growth and development of MSMEs in North Tapanuli Regency. The contribution of MSMEs to the Gross Regional Domestic Product (GRDP) is notable, generating employment opportunities and potentially fostering positive effects on overall regional development.

4.2 Recommendations

In light of the conclusions, the following recommendations are proposed to strengthen economic policies related to MSMEs, improve access to financing, provide skills training for MSME entrepreneurs, promote joint product promotion, and encourage collaborative support among the government, financial institutions, and the private sector:

1. Strengthen Economic Policies: Enhance economic policies specifically targeted at supporting MSMEs, including tax incentives and regulatory measures conducive to the growth of this sector.
2. Improve Access to Financing: Implement measures to improve MSMEs' access to financing, thereby enabling them to develop their businesses more effectively.
3. Skills Training: Enhance skills training programs for MSME entrepreneurs to improve competitiveness and the quality of their products.
4. Joint Product Promotion: Encourage collaborative product promotion initiatives among MSMEs to expand their market reach and increase the visibility of local products.
5. Collaborative Support: Promote collaborative support mechanisms involving the government, financial institutions, and the private sector to create a more conducive environment for MSME growth and sustainability.

The implementation of these measures is anticipated to create an environment that fosters the growth and sustainability of MSMEs, consequently supporting the comprehensive development of North Tapanuli Regency.

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