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Increasing the regional economic growth through small and medium enterprises

Hedwigis Esti Riwayati[1]

[1] *Perbanas Institute, Perbanas Street, Karet Kuningan, South Jakarta, 12940, DKI, Indonesia*

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A B S T R A C T

This study aimed to analyze the influence of regional revenue, capital expenditures, labor and small and medium enterprises towards the regional economic growth in the Regencies in Sulawesi Island. This study uses a quantitative approach with secondary data obtained from the Central Statistics Agency. Based on the results of the panel data analysis using EViews 8.0 program processing tools, the results indicate that in partial local revenue, capital expenditures, labor, small and medium enterprises have significant positive effect on regional economic growth in the Regency/City of the island of Sulawesi. Another conclusion of the results in this research are feasible estimated regression model is used to explain the economic growth of the Regency/City of the island of Sulawesi.

A B S T R A K

Penelitian ini bertujuan untuk menganalisis pengaruh pendapatan asli daerah, belanja modal, tenaga kerja dan usaha kecil menengah dalam peningkatan pertumbuhan ekonomi daerah Kabupaten/Kota Pulau Sulawesi. Penelitian ini menggunakan pendekatan kuantitatif dengan menggunakan data sekunder yang diperoleh dari Badan Pusat Statistik. Analisis data panel menggunakan alat pengolahan program EViews 8.0. Hasil penelitian menunjukkan bahwa variabel pendapatan asli daerah, belanja modal, tenaga kerja, usaha kecil menengah berpengaruh positif signifikan terhadap pertumbuhan ekonomi daerah Kabupaten/Kota Pulau Sulawesi. Hasil kesimpulan lain dalam penelitian ini adalah model regresi yang diestimasi layak digunakan untuk menjelaskan peningkatan pertumbuhan ekonomi daerah.

1. INTRODUCTION

The economic growth is an ongoing process of economic change into an increasingly- developed economy. The increased production capacity is embodied in the national economy. This is identical to the economic growth seen through the districts or municipalities. Thus, the details of each region can provide clear information on the rate of economic growth. The success of an area in improving the welfare of its people can be seen through regional economic growth. Hamid and Susilo (2011) argue that one of the most commonly used indicators for seeing the symptoms of regional economic growth is the Gross Regional Domestic Product (PDRB). PDRB reflects the economic activities carried out and achieved by the population over a certain period. Gross regional domestic product (GRDP) can also be used to measure the level of prosperity and prosperity of a region.

Local Own Revenue (PAD) is part of the local government financial resources. In Act No.33 of 2004, sources of revenues that can be used by local governments in fiscal decentralization are the original regional income (PAD), General Allocation Fund (DAU), Special Allocation Fund (Dana Alokasi Khusus, DAK), revenue sharing funds, regional loans, and so on. Regional revenue sources can be managed by the local government in financing the implementation of the government under its authority. Hidayat, Sari and Aqualdo (2011); Maharani and Isnowati (2014) argue that original revenues have a positive effect on regional economic growth. That is, the higher the PAD generated by local governments, the more increasing regional economic growth. In this study, the economic growth is proxied with the value of GRDP. Local government in

** Corresponding author, email address: [1] hedwigis.esti@perbanas.id.*

this case is expected to increase the economic growth of the region through PAD which is a benchmark for the region in carrying out regional autonomy.

One of the objectives of fiscal instruments from balancing funds is useful to encourage economic growth; one of them is through capital expenditure. Husna and Sofia (2013) state that capital expenditures made by local governments are used for development which includes the development of the education, health, transportation sectors so that people also enjoy the benefits of regional development. The contribution of capital expenditure will attract investors to be able to invest in the region so that it will expand the base of economic activity in the region and lower the unemployment rate.

The pace of economic growth also shows the rate of increase in real Gross National Products (GNP). Changes in available resources are the factors causing real GNP growth. Resources in the economy are divided into capital goods and labor. The labor force consists of a workforce and unemployment that are still looking for work. Supartoyo, Tatuh and Sendouw (2013); Agustina and Indrajaya (2014); Prok (2015) stated that a labor has a positive effect on economic growth because the labor is one of the factors of production that drives the regional economy. Increased labor productivity in the form of increased output produced will encourage economic growth. The growing number of people will increase the number of labor force that can encourage an area to increase its production. In contrast to Sobita and Suparta (2014) argues that economic growth has a positive effect on the absorption of labor in a region.

Another factor that can accelerate economic growth in a region is Small and Medium Enterprises (SMEs) located in the area. The role of SMEs in accelerating the process of economic growth is very important. Hapsari et al. (2014) said that the contribution of SMEs to GDP makes an indicator of the importance of SMEs in improving economic growth in Indonesia. SMEs are always described as sectors that have an important role to build the economy in Indonesia, because the population in the region is mostly low-educated and living in small industries both in traditional and modern sectors, and able to absorb a lot of manpower. It shows how the role of SMEs is very dominant in regional economic growth, so that the empowerment of SMEs is very important in an effort to increase regional economic growth in Indonesia. Based on the research gap above, this study is aimed to find out the factors that can improve the economic growth of the region including the impact of SME presence in the area.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Research on factors affecting GRDP has been done before, such as Prakarsa (2014) with the topic of the influence of local revenue and government expenditure on economic growth in East Java regencies or cities. The method used in this research is chow test and Hausman test to determine the data model of regression. The data were obtained from secondary data from BPS and DJPK. From the analysis of panel data of random effect model, it is found that PAD has a less significantly and negatively effect on the regional economic growth. Yet, the capital expenditure significantly affects the regional economic growth.

Agustina and Indrajaya (2014) discussed the effect of the implementation of regional autonomy toward GRDP of Bali Province. It shows that partially government and labor expenditure have a significant and positive effect on the regional economic growth. The method used is by using multiple linear regression analysis model with data obtained from BPS Bali. The technique used to solve the problem in this research is multiple linear regression analysis models.

The result found by Hapsari et al. (2014) was on the influence of small and medium enterprises (SME) development on regional economic growth. It shows that the number of small and medium enterprises (SMEs) has no significant effect on regional economic growth. The data were taken as secondary data in the form of time-series data. The data is obtained from statistical book of Batu city from BPS of East Java province. This is a quantitative analysis with exploratory method.

Dhanang research (2013) on the effect of population and fiscal independence on economic growth in the city of Surakarta found that a number of workers have no significant effect on regional economic growth, while the PAD significantly influences regional economic growth (PDRB). From the model feasibility test (f-test), it is known that the labor and local revenue significantly influence the economic growth. The data used in this study is secondary data published by the Central Bureau of Statistics of Surakarta in 1991-2011. The method used in this research is by multiple regression test using Ordinary Least Square (OLS).

Theoretical Framework

Based on the results of previous research and the

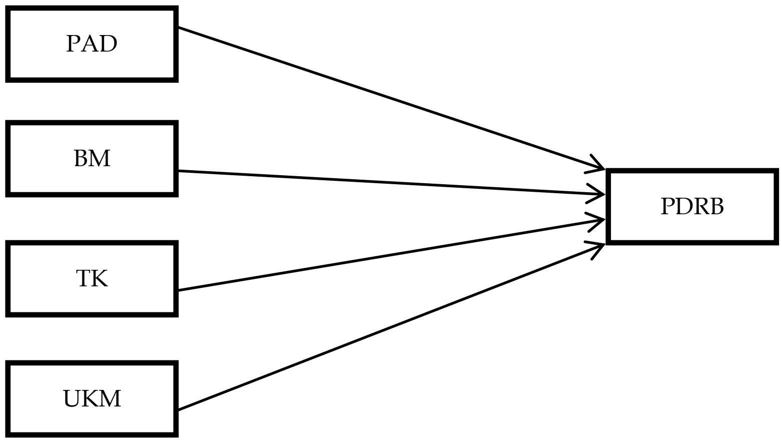

Figure 1
Theoretical Framework

Source: Researcher (2016)

assessment of original local revenue (PAD), capital expenditures, manpower, and small-scale enterprises (SMEs) with the economic growth of the regencies in Sulawesi Island, the researchers provide a theoretical framework as in Figure 1.

The success of a region in carrying out policies can be used as a benchmark to see the rate of economic growth in the area. In this case, local governments are expected to increase their regional economic growth through Local Own Revenue (PAD) which is a benchmark for the region in carrying out regional autonomy. Government capital expenditure is used for developing one of them that is to build infrastructure in the area which can be enjoyed by the society. It is expected to increase economic growth. In addition, managing human resources well and empowerment of small and medium enterprises (SMEs) also need to be done by the local government for the welfare and prosperity of the community: can be increased so as to affect the regional economic growth.

Hypothesis Formulation

The Effect of Local Original Income (PAD) on economic growth, according to Hidayat, Sari and Aqualdo (2011); Maharani and Isnowati (2014) argue that the original income or revenues have a significant and positive effect on the economic growth. That is, the higher the PAD generated by local governments, the greater the economic growth of the region. The original revenue of the region is the receipt obtained by the regions that can be managed by the local government to finance the implementation of the government. By doing so, it will have an impact on the improvement of quality service made by the local government to the community. It can also improve the welfare or living standard of the community. In this study, the hypothesis of the influence of PAD on the economic growth is stated as follows:

H1: The Original Regional Revenue has a positive and significant effect on the regional economic growth.

Husna and Sofia (2013) stated that capital expenditure by local governments is used for development that includes the development of the education, health, transportation sectors. Thus, the community also enjoys the benefits of regional development. In addition, the contribution of capital expenditure can attract investors to invest in the region so that it will expand the base of economic activity in various sectors. In particular, this expands the business field and lowers the unemployment rate. The formulation of the hypothesis of the effect of capital expenditure on regional economic growth, as follows:

H2: Capital expenditure has a positive and significant effect on the regional economic growth.

Supartoyo, Tatuh and Sendouw (2013); Agustina and Indrajaya (2014) argue that labor has a significant positive effect on economic growth. This is due to the labor that performs production activities and drives the regional economy. The increase of labor productivity in the form of increased output produced can increase the value of Gross Regional Domestic Product (GRDP) and encourage regional economic growth. The growing number of people will increase the number of the labor force that can encourage an area to increase its production. The hypothesis of the influence of labor on economic growth is formulated as follows:

H3: Labor has a significant and positive effect on regional economic growth

Another factor that can accelerate economic growth in a region is small and medium enterprises (SMEs) located in the area. Hapsari et al. (2014) said that the contribution of SMEs to GDP makes an indicator of the importance of SMEs in improving economic growth in Indonesia. SMEs play a role in absorbing labor and reducing unemployment in the region (Hamid and Susilo 2011). With the existence of SMEs in the region will increase the availability of goods and services needed by the community, so that the empowerment of SMEs is very important in an effort to increase regional economic growth in Indonesia. The formulation of the hypothesis of the influence of small and medium enterprises on regional economic growth is as follows:

H4: Small and Medium Enterprises have a significant and positive effect on regional economic growth

Increased regional economic growth can be with various macro and microeconomic factors. These are the local original revenues and positive economic balance funds on economic growth Hidayat, Sari and Aqualdo (2011); Maharani and Isnowati (2014). Husna and Sofia (2013) argue that the appropriate balance funds of regional expenditure are positive on economic growth. The areas are in the Regency or Municipality of Sulawesi Island. The increased regional expenditure will open up jobs that can absorb labor. Absorbed labor can increase per capita income and ultimately drive regional economic growth (Supartoyo, Tatuh and Sendouw 2013; Agustina and Indrajaya 2014). The existence of SMEs in a country can encourage the economic growth of the State (Kongolo 2010). SMEs are able to increase competition and entrepreneurship that has external benefits to efficiency. Formulation of the hypothesis of the feasibility of this research model is as follows:

H5: The model in this study deserves to explain the regional economic growth.

3. RESEARCH METHOD

Based on the research objectives, this study is considered a quantitative descriptive research. This study uses a quantitative approach because it emphasizes an analysis of numerical data (numbers) which are processed by statistical methods. The purpose of this research is to get empirical evidence about the influence of Local Original Income (PAD), capital expenditure, labor and Small Medium Enterprises (SMEs) in increasing the regional economic growth.

The data is secondary data, in the form of data with time horizon (yearly horizon), starting from 2010 until 2013. They were obtained from the publication of the Central Bureau of Statistics (BPS). The population taken in is all districts/cities in six provinces contained in Sulawesi Island. The six provinces consist of North Sulawesi Province, Gorontalo Province, West Sulawesi Province, Central Sulawesi Province, South Sulawesi Province and Southeast Sulawesi.

It uses a saturated sampling, since all members of the population were used as samples. The supporting indicators characterize the economic growth of each regency/ city in Sulawesi, which is the economic growth of 73 districts/ municipalities viewed through the Local Revenue, Capital Expenditure, Manpower, Small and Medium Enterprises and District/ City Economic Growth (GRDP) for the period from 2010 to 2013.

This study uses a model of panel data equation which is a combination of cross-section data and time series data. This data processing tool uses EViews 8.0 program. All data of variable used in this research is transformed into a natural log of original Regional Revenues (PAD), Capital Expenditure, Manpower, Small and Medium Enterprises (SME) and Gross Regional Domestic Product (PDRB) with consideration of the gap that is too big to the nominal amount in every different region.

$$ln\ PDRB = \alpha + \beta 1 lnPAD + \beta 2 lnBM + \beta 3 lnTK + \beta 4 lnUKM + \varepsilon. \qquad (1)$$

Description:

PDRB = Economic Growth
PAD = Original Regional Revenues
BM = Capital Expenditure
TK = Labor
UKM = Small-medium Enterprises (SMEs)
α = constant
$\beta 1$ - $\beta 4$ = Regression coefficient
ε = Standard Error.

4. DATA ANALYSIS AND DISCUSSION

Based on the results of testing, it can be seen that the Original Regional Revenues (PAD) has a significant positive effect on Economic Growth (PDRB) in the Regency/ City on the island of Sulawesi period 2010-2013. By t-test, the probability value of PAD is 0.00000 or less than the significance level of 0.05. PAD regression coefficient of 0.136375 which means every increase of PAD by 1 percent then the growth rate of GDP increased by 12.8026 percent. This research is supported by research by Sardi, et al. (2016) and Maryati and Endrawati (2010) research indicating that original regional revenues (PAD) has a significant positive effect on Regional Economic Growth (PDRB). That is, the higher the PAD generated by local governments, the greater the value of the regional GDP.

Local government, in this case, is expected to increase the economic growth of the region through PAD, which is a benchmark for the region in carrying out regional autonomy.

Capital Expenditure has a significant positive effect on Economic Growth in Regency / City in Sulawesi Island in 2010-2013. When viewed from the regression equation, the value of regression coefficient for BM of 0.040165 indicates that each capital increase by 1 percent then the growth rate of GDP grew by 4.0165 percent. The probability value of 0.0367 is more or less than the significance level of 0.05. Initiative (2014) also gives the same results as this study, which shows that capital expenditure significantly affects economic growth.

Through the use of capital expenditures, local governments can undertake development that includes the development of the education, health, transportation sectors, so that people also enjoy the benefits of regional development. The contribution of capital expenditure can broaden the base of economic activity in various sectors, and specifically expand the business field and lower the unemployment rate, as it will attract investors to be able to invest in the region. If the unemployment rate decreases then the welfare of society in an area will increase and impact on the economic growth of the area.

Labor has a significant positive effect on economic growth in the regencies / cities in Sulawesi Island period 2010-2013. Variables TK has regression coefficient value of 0.288433 when viewed from the regression equation, which means that each increase in the amount of labor by 1 percent then the growth rate of GDP also increased by 28.8433 percent. The probability value contained in the t test of 0.0159 is smaller than the significance level of 0.05. The result of this research is supported by the research of Agustina and Indrajaya (2014) that the workforce has a significant effect on economic growth.

Labor has a positive influence on economic growth because labor is one of the factors of production that drives the regional economy. Increased labor productivity in the form of increased output produced will encourage regional economic growth. The growing number of people will increase the number of labor force that can encourage an area to increase its production. However, it should be supported by the availability of employment for the workforce. Small and Medium Enterprises SMEs have a coefficient value of 0.047743 and probability of 0.0345. This indicates that Small and Medium Enterprises have a significant positive effect on economic growth.

Research Hapsarai et al. (2014) found different results with this study that the numbers of small and medium enterprises have no significant effect on regional economic growth. Based on statistical data obtained from BPS, in 2012 SMEs absorb 97.16 percent of the total workforce of Industry in Indonesia or amounted to 107.66 million, the rest or equal to 2.84 percent of labor absorbed by the Big Enterprise sector. It shows how the role of SMEs is very dominant in Indonesia's economic growth because SMEs can absorb labor and can reduce unemployment so that the welfare of the population increases. SME actors consisting of people in certain areas can receive income from the business they run and increase the availability of goods and services for their customers. Therefore, the empowerment of SMEs is very important in an effort to increase economic growth in Indonesia.

Model feasibility test results obtained the probability value (F-statistic) of 0.000000 smaller than 0.05. That is, the estimated regression model is worthy to be used to explain the effect of original regional revenues (PAD), capital expenditure, labor, and SMEs on economic growth in the regency/municipality of Sulawesi in the 2010-2013 periods. Adjusted R-square value.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Original regional Revenue (PAD) has a significant and positive effect on economic growth in regencies or cities in Sulawesi Island in the period of 2010-2013. PAD is one of the sources of the revenue used by local government in fiscal decentralization. The regional revenue sources can be managed by the local government in financing the implementation of government that becomes its authority. The higher the PAD generated by the local government, the more value of regional Gross Regional Domestic Product (PDRB) of the area is.

PAD is a benchmark for the region in carrying out regional autonomy, which is expected to increase regional economic growth. The capital expenditure has a significant positive effect on Economic Growth in Regency/City in Sulawesi Island in 2010-2013. Using capital expenditures, the regional development can be enjoyed by the local communities because local governments can undertake the development covering the sectors of education, health, transportation. The contribution of capital expenditure can also broaden the basis of economic activity in various sectors, and specifically expand the business field and lower the unemployment rate. It also attracts the investors for investing the capital in that region. If the unemployment rate decreases, the welfare of society in an area will increase and it can affect the economic growth of the area.

Labor has a significant and positive effect on economic growth in the regencies or cities in Sulawesi Island in the period 2010-2013. Labor has a positive effect on economic growth because it is one of the factors of production that drives the regional economy. Increased labor productivity in the form of increased output produced will encourage economic growth. The growing number of people will increase the number of labor force that can encourage the area to increase its production. However, it should be supported by the availability of employment for the workforce.

Small and Medium Enterprises (SMEs) have a significant and positive effect on the economic growth. When looking at the statistical data obtained from BPS, in 2012 SMEs could absorb 97.16 percent of total industrial workforce in Indonesia or equal to 107.66 million. The rest or equal to 2.84 percent of labor were absorbed by big business sectors. It shows how the role of SMEs is very dominant in Indonesia's economic growth because SMEs can absorb labor and can reduce unemployment so that the welfare of the population increases. SME actors consisting of people in certain areas can receive income from the business they run and increase the availability of goods and services for their customers. Therefore, the empowerment of SMEs is very important in an effort to increase economic growth in Indonesia.

Regression models estimated in this study include original regional revenues (PAD), capital expenditures, labor, and small and medium enterprises (SMEs) that are eligible to be used to explain the effect on the economic growth in Sulawesi in the period of 2010-2013. Adjusted R-square value of 0.985720 means that the independent variables in this study provide the effect of 98.5720 on Economic Growth in the Regencies or cities in Sulawesi Island in the period of 2010-2013.

The existence of Small and Medium Enterprises in the area can increase the growth significantly. It shows how dominant the role of SMEs is in Indonesia's economic growth. It is because the SMEs can absorb labor force and therefore reduce unemployment. Thus, it can increase the welfare of the population. In addition, the SMEs practitioners consist of the people in certain areas so that they can receive income from the business they run. They can also increase the availability of goods and services for their customers. Therefore, the empowerment of SMEs is very important in an effort to increase the economic growth in Indonesia.

The recommendations for further research are that the researchers should add or use other macroeconomic variables that are considered to affect regional economic growth such as investment, consumption, export-import, poverty and unemployment. They can also use non-macroeconomic variables such as the internal condition of the area covering the physical and environmental conditions, regional economy, regional finance, population, socio-culture, regional facilities and infrastructure, governance and security as well as politics. Future research is also expected to expand or increase the object of research in other areas contained in Indonesia with a longer observation period.

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