



# **The Effect of Government Policies on the Success of Micro, Small, and Medium Enterprises (MSMEs) in Regional Development in North Tapanuli Regency**

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## **Authors' contributions**

*This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.*

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## **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 using the slovin pattern. Key variables include Monetary Policy (X1),

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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.*

## 1. INTRODUCTION

The economic growth of a country could be measured through the Micro, Small, and Medium Enterprises (MSMEs) sector, which played a central role in driving the economy. Rahayu [1] stated that MSMEs had the potential to expand employment opportunities, provide comprehensive economic services, and contribute to income distribution and economic growth. Furthermore, MSMEs could serve as a pillar of national stability.

In the context of Indonesia, MSMEs were not only the backbone of the economy but also played a crucial role in the formation and growth of the Gross Domestic Product (GDP). Tambunan et al. [2] noted that MSMEs contributed approximately 59.08% to the GDP, made a significant contribution to national exports, and created jobs for a growing population at a rate of 6.4% per year.

Although MSMEs had a strategic role, the COVID-19 pandemic posed serious challenges to their sustainability. The impact of Large-Scale Social Restrictions (LSSR) and a decrease in demand for goods and services led to various issues, including the liquidity of business actors (OECD, 2020) [3]. The government responded with various policies, such as social assistance, tax incentives, and credit relaxation, to ensure the sustainability of MSMEs.

Lumempow et al. [4] explained that government policies, such as the Productive Micro Business Assistance (PMBA), had a positive impact on MSME development. This positive influence was also found in tax incentive policies and working capital expansion [5]. Thus, government policies played a crucial role as an instrument in supporting the growth of MSMEs.

In efforts to support MSMEs, the government needed to coordinate effectively with other stakeholders, such as business actors and academics. Collaboration and synergy among all parties could create a conducive environment for MSME development. Daulay [6] emphasized that collaboration between business actors, the government, and academics in designing strategies for creative economic development was key to success.

Monetary policies, such as People's Business Credit (PBC), and fiscal policies, such as tax incentives, played a role in providing financial support and influencing the success of MSMEs [7]. The implementation of these policies created 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 stemmed from internal aspects such as capital and marketing but also from external factors, including the availability of industrial areas and high shipping costs [8]. To overcome these constraints, the government needed to design policies that supported 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 [9] research focusing on the government's role in increasing the income of MSMEs. However, limitations in coordination between institutions and communication with business actors posed 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. The

study further explores 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. [9] aimed to understand the government's role in the income levels of MSMEs in Wonosobo Regency. Natasya and Hardiningsih [5], 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 [10] 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 [11] 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. 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 population of Micro, Small, and Medium Enterprises (MSME) in Tapanuli Utara Regency is reported to be 39,856 units based on available data. In research, a sample is a subset of the population units (Kuncoro, 2003). The sample size is determined using the Slovin formula (Umar, 2001) as follows:

$$n = \frac{N}{1 + Nd^2} = \frac{39.856}{1 + (39.856 \times 0,01)} = \frac{39.856}{399,56} = 99,75 = 100$$

where:

- n is the Sample size
- N Is the population size
- d Is precision, set at 0,01

Based on the calculation, the total sample size is 99.75 respondents, rounded up to 100 respondents to gather data. In this study, respondents are MSME. The sampling process is conducted using simple random sampling. According to Sugiyono (2016), simple random sampling is a method used to randomly select samples from the population, ensuring that each population member has an equal chance of being chosen as a sample. All population members become part of the sample frame.

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 (PBC). Its indicators involve understanding of monetary policy, decision-making on PBC, principles of credit provision by banks to MSME actors, and the impact of credit policy on business after receiving credit.

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.

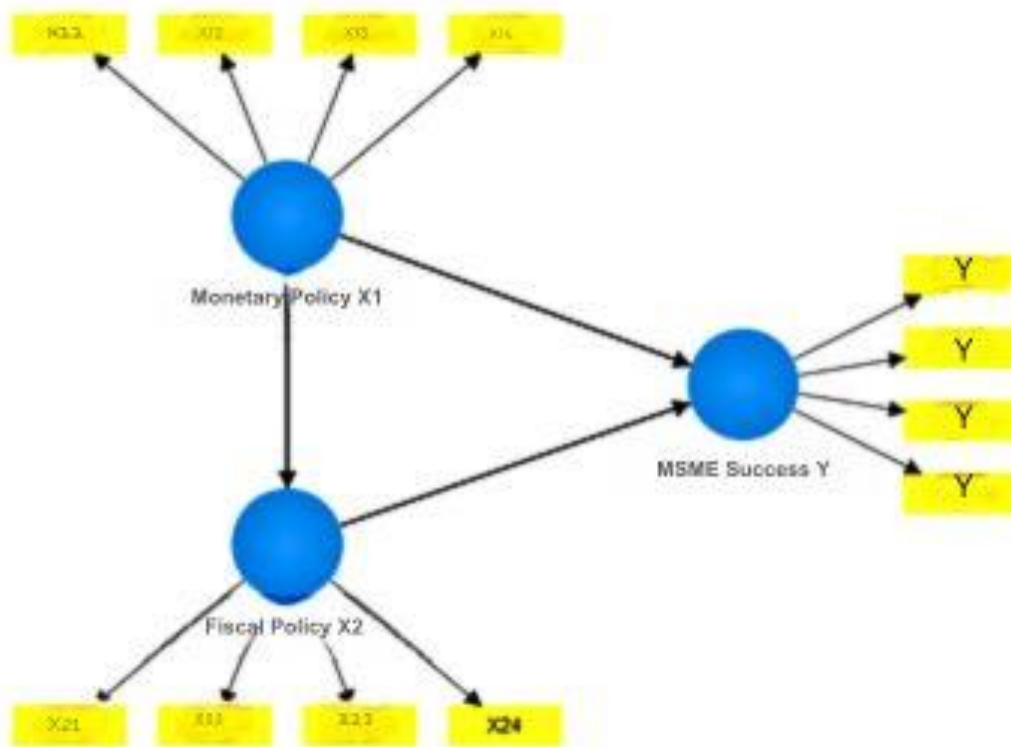


Fig. 1. Research Model

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. RESULTS 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 sector	15,625
Trade	7,392
Crafts	182
Furniture	104
Tourism	91
Information Technology	270
Automotive	380
Services	2,825
Total	39,856

The data presented in Table 1 illustrates a diverse landscape of Micro, Small, and Medium Enterprises (MSMEs) in North Tapanuli Regency, reflecting a robust economic ecosystem. The most notable contributors include the Fashion sector, particularly the production of woven and traditional "ulos" clothing, boasting 8,286 business units. This not only showcases the region's cultural richness but also positions it as an economic attraction, especially for tourists seeking authentic local products.

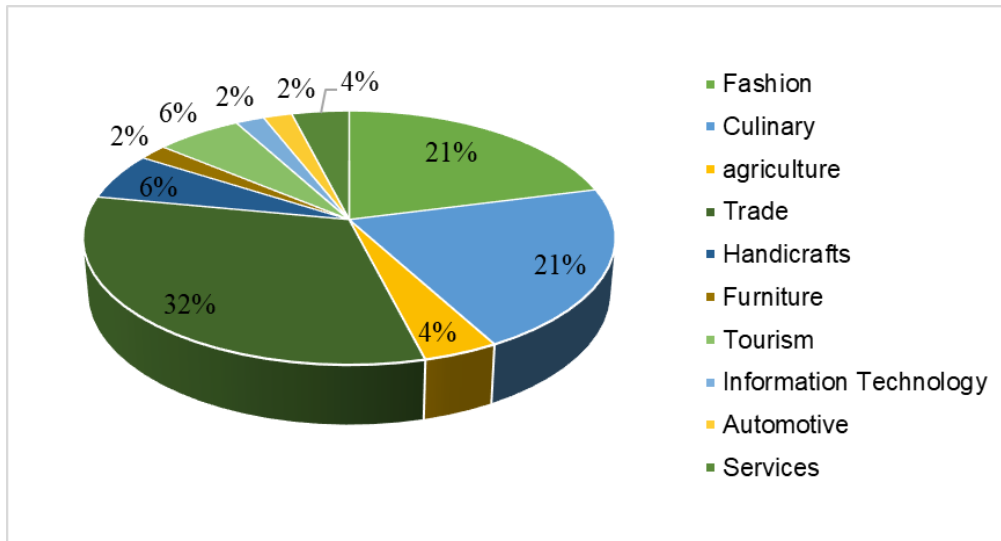
Following closely, the culinary sector, with 4,701 business units, enriches the cultural experience for visitors. Meanwhile, the Agriculture/Trade/Livestock sector, encompassing a broad range of activities, stands out with 15,625 business units, playing a crucial role in fostering a sustainable local economy.

A noteworthy observation is that the category "Agriculture sector" includes both agricultural and trade activities. While "Trade" is separately listed with 7,392 business units, this represents a subset within the broader category. To accurately reflect the data, emphasizing the "agriculture sector" as the largest contributor would offer a more precise description.

Other sectors such as Crafts, Furniture, Tourism, Information Technology, Automotive, and Services also make significant contributions, further enhancing the economic diversity of North Tapanuli Regency. Particularly, the Tourism sector, with 91 business units, showcases successful developments in tourist destinations, aligning with supportive government policies. Overall, these findings underscore the dynamic nature of the local MSME landscape and its potential to fuel economic growth with effective policies and strategic support.

#### 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.



**Fig. 2. Characteristics of Respondents Based on Types of MSMEs**

### 3.4 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.

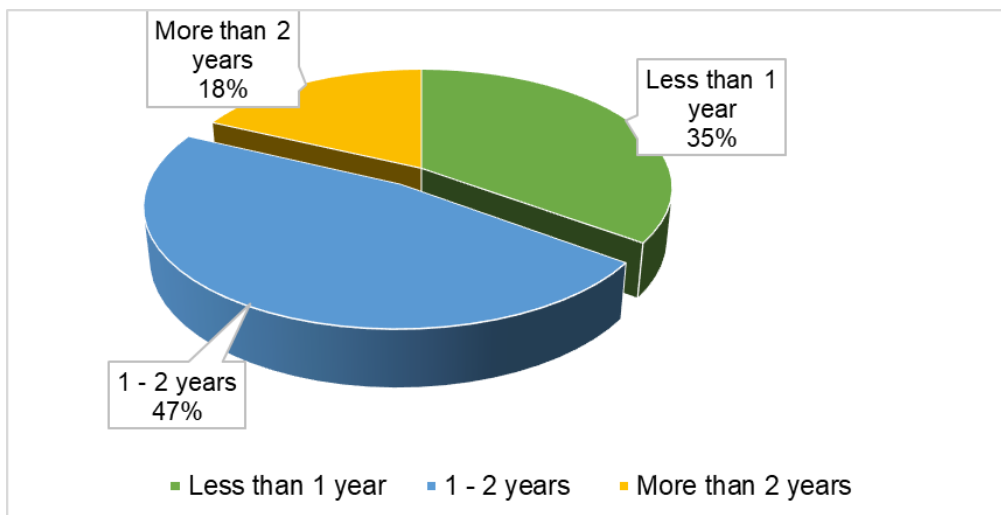
### 3.5 Previous Occupations Before MSMEs

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.

### 3.6 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.



**Fig. 3. Characteristics of Respondents Based on MSME Experience**

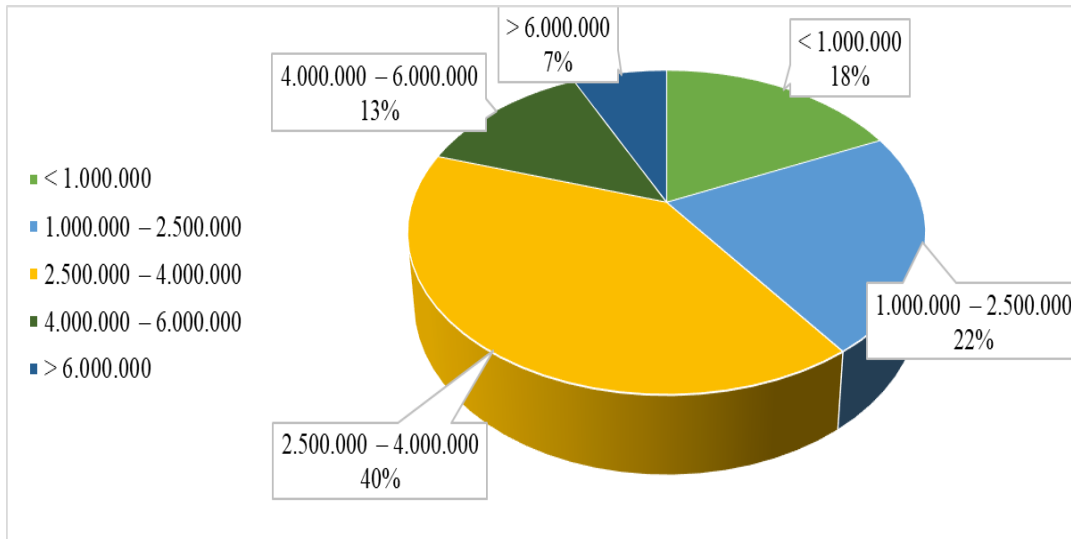


Fig. 4. Characteristics of Respondents Based on MSME Income

### 3.7 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.

#### 3.7.1 Outer Loadings

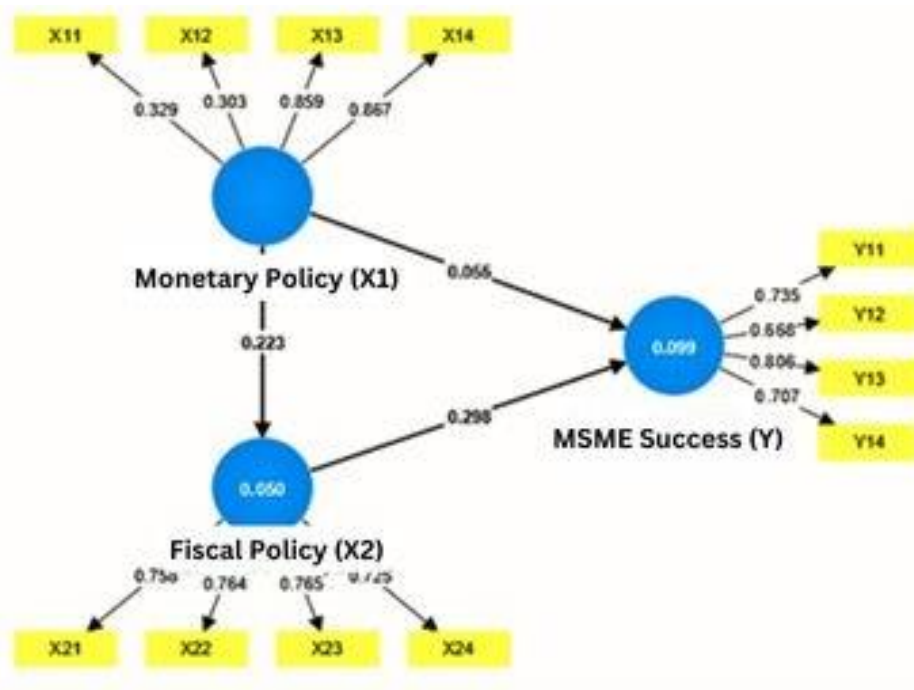


Fig. 5. Outer Model Variables: Monetary Policy, Fiscal Policy, and MSME Success

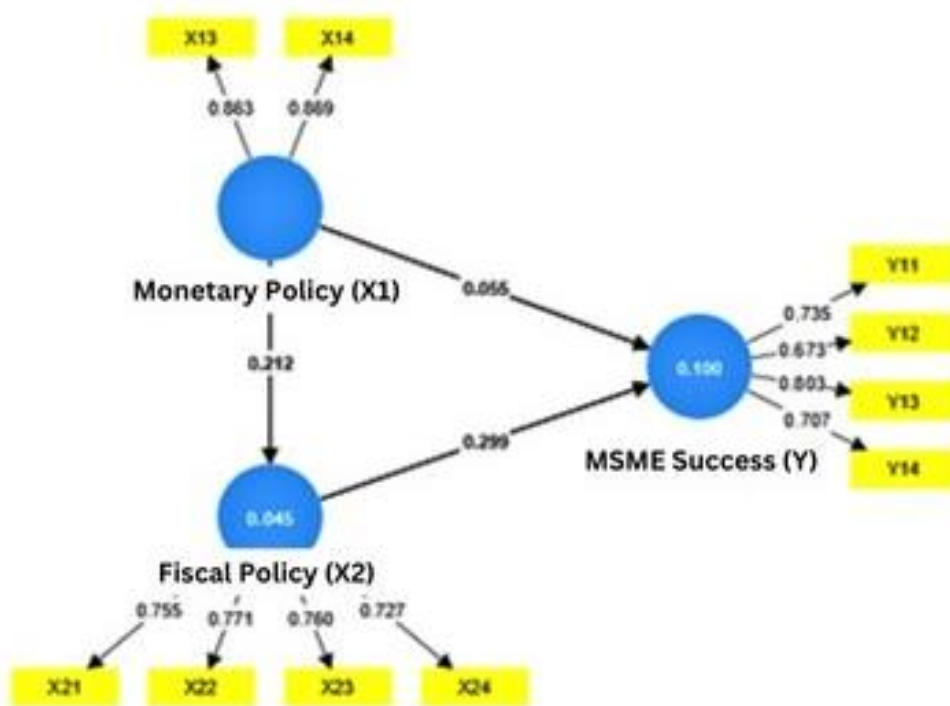
Fig. 5 illustrates that in the early stages of statistical analysis, validity and reliability tests were conducted, followed by hypothesis testing using SmartPLS 4.0 for Windows software.

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

Variable	Indicator	Outer Loading	Note
Monetary Policy (X1)	X11	0,329	Invalid
	X12	0,303	Invalid
	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
	Y14	0,707	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 PBC 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:



**Fig. 6. Outer Model Variables: Monetary Policy, Fiscal Policy, and MSME Success after Recalculation**

Fig. 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.

### 3.7.2 Discriminant Validity

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

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.

### 3.8 AVE, Composite Reliability and Cronbach's Alpha

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

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.

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

		Monetary Policy	Fiscal Policy	MSME Success
X12	0,051	0,209	<b>0,863</b>	Valid
X13	0,152	0,158	<b>0,869</b>	Valid
X21	0,191	<b>0,755</b>	0,240	Valid
X22	0,277	<b>0,771</b>	0,184	Valid
X23	0,240	<b>0,760</b>	0,132	Valid
X24	0,222	<b>0,727</b>	0,048	Valid
Y11	<b>0,735</b>	0,278	0,017	Valid
Y12	<b>0,673</b>	0,159	0,125	Valid
Y13	<b>0,803</b>	0,236	0,185	Valid
Y14	<b>0,707</b>	0,214	0,024	Valid

**Table 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

### 3.9 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.

### 3.10 R-Square (Coefficient Determination)

**Table 6. R-Square**

Variable	R-Square
MSME Success	0.621
Fiscal Policy	0.499

The R-Square values, as delineated in Table 6, serve as key indicators of the model's explanatory efficacy. Specifically, the R-Square of 0.621 for the MSME Success Variable implies that approximately 62.1% of the variance in MSME success can be attributed to the combined influence of monetary and fiscal policy changes. In the context of monetary policy alone, around 50% of its variations contribute to explaining the status of MSME success. This nuanced interpretation underscores the pivotal role of fiscal policy, indicating that an effective implementation of constructive fiscal measures substantially enhances the model's ability to elucidate the dynamics impacting MSME success. Both MSME Success and Fiscal Policy are appropriately categorized as having a moderate impact, reflecting their significant yet partial contributions to explaining the variance in MSME success within the established model.

### 3.11 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.

### 3.12 Relationships Between Variables

#### 3.12.1 Monetary policy on MSME success

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

rates, facilitating the development of MSMEs and increasing purchasing power and business profitability.

#### 3.12.2 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.

#### 3.12.3 Monetary policy through fiscal 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.

### 3.13 Discussion

The test results illustrate that monetary and fiscal policies play a strategic role in supporting the success of MSMEs. The PBC 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.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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