# PEOPLE-BASED ECONOMIC DEVELOPMENT TRANSFORMATION IN EMPOWERING MICRO, SMALL AND MEDIUM ENTERPRISES IN SOUTH SULAWESI (MAKASSAR CITY CASE STUDY)

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**Abstract**

Makassar City is an attractive city and has potential for developing goods and services trading businesses. Empowerment of SMEs and the tourism sector in the city of Makassar has a significant effect on improving the economy both individually and as a whole. This research aims to determine the role of small and medium enterprises in people's economic development. In this study, researchers focus on the variables of labor absorption, business capital and the level of business profits obtained by SMEs, which are independent variables that influence community welfare. The results of this research using the SPSS approach have provided static test results where the three variables have a positive and significant influence on community welfare (Y), including; labor absorption (X1) with a coefficient value $b_1 = 2.019$, then next is the business capital variable (X2) with a coefficient $b_2 = 2.546$. And the third is the operating profit variable (X3) $b_3$ of $=3.024$. Meanwhile, in the partial test (F), the labor absorption variable (For partial tests and simultaneous tests with the SPSS system, there is an influence of these three variables on community welfare with the assumption that the other variables are constant.

**Keywords:** Development, Economy, Welfare, Society.

## INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have an important role in the Indonesian economy, especially people's economic development because MSMEs contribute to all sectors so that labor absorption increases and unemployment decreases. The MSME sector has been promoted and made the main agenda for economic development in this region and has proven to be resilient when the economic crisis occurred in 1998, only the SME sector survived the economic collapse, while the larger sectors were actually collapsed by the crisis. Mudradjad Kuncoro in the Indonesian Business Daily on October 21 2021 stated that SMEs have proven to be resilient to crises and able to survive because, first, they do not have foreign debt. Second, there is not much debt to banks because they are considered unbankable. Third, use local input. Fourth, export-oriented.

South Sulawesi Provincial BPS data for 2021 in figures, the contribution of MSMEs to gross domestic product reached 54% -57%, the contribution of MSMEs to employment was around 66%, and 21% of MSMEs carried out export activities through third parties (exporters/intermediary traders). The data presented provides an illustration that micro, small and medium enterprises are supporting development in all sectors, especially development related to community welfare. However, what the government needs to pay attention to as a policy maker is to provide space for business development without making regulations that could dampen business. Economic development efforts in Makassar City are an integral part of national development efforts which must be implemented and harmonized in an integrated manner between one sector and another. To spur economic growth in Makssar City so that it can achieve full employment, strategic steps are certainly needed. One way that can be done is to encourage the growth of MSMEs, because this sector absorbs the most labor and encourages increased investment. In order for these efforts to be more effective, it is necessary to conduct a study regarding the development of the MSME sector in the city of Makkasar. MSMEs have many business unit sectors, one of which is the manufacturing sector. To see the development of the number of SMEs and workforce absorption in Makassar City, please see the following table:

**Table 1: Development of MSMEs and Labor Absorption (2018-2022)**

| Year | Number of MSMEs | Total manpower | Production Value (Rp) | Turnover Value (Rp) |
|------|------|------|------|------|
| 2018 | 946 units | 1.204 person | 11,38 M | 14,79 M |
| 2019 | 1054 units | 965 person | 14.45 M | 17,34 M |
| 2020 | 1159 units | 861 person | 13,14 M | 14,45 M |
| 2021 | 1273 units | 948 person | 10,95 M | 12,05 M |
| 2022 | 1403 units | 758 person | 13,69 M | 14,38 M |

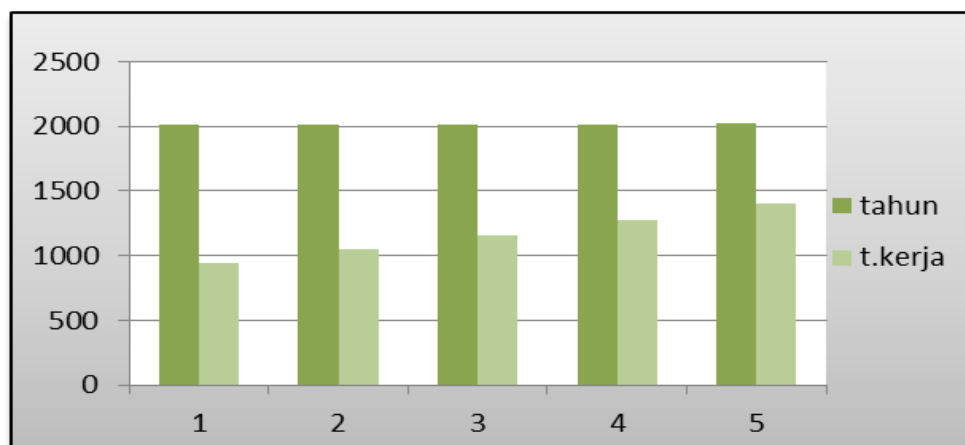Source: Makassar City Cooperatives and SMEs Office



**Figure 1: Graph of the development of MSME workforce absorption**

In Makasar City, the manufacturing sector is the second largest contributor to Makasar City's GRDP after trade. The table above describes the number of workers, the amount of investment

and the production value produced by small industries in Makassar City in 2021. In fact, the number is quite large (1490), or the growth is around 17.83% and the average increase in added value per year (2018-2022) is 6.09% (BPS South Sulawesi) so MSMEs in the manufacturing sector have quite significant potential.

Analysis of the Influence of the Development of Small and Medium Enterprises in the Manufacturing Sector on Economic Growth in the City of Makassar, if it is developed and it is hoped that it will be able to absorb more workers and increase investment absorption so that MSME players will later increase their production scale. Based on the phenomena described above, then research on Analysis of the Development of Micro, Small and Medium Enterprises in the Manufacturing Sector on Economic Growth in Makassar City needs to be carried out.

## LITERATURE REVIEW

### 1. Concept and Definition of MSMEs

Micro, Small and Medium Enterprises (MSMEs) have an important and strategic role in national economic development. Apart from playing a role in economic growth and employment, MSMEs also play a role in distributing development results. MSMEs have also been proven to be unaffected by the crisis. When the crisis hit in the 1997 – 1998 period, only MSMEs were able to remain strong.

Data from the Central Statistics Agency shows that after the 1997-1998 economic crisis, the number of MSMEs did not decrease, in fact it continued to increase, and was even able to absorb 85 million to 107 million workers by 2012. In that year, the number of entrepreneurs in Indonesia was 56,539,560 units. Of this number, Micro, Small and Medium Enterprises (MSMEs) accounted for 56,534,592 units or 99.99%. The remaining 0.01% or 4,968 units are large businesses. This data proves that MSMEs are a very potential market for the financial services industry, especially banks to channel financing. Because around 60 - 70% of MSMEs do not have access to banking financing.

The government and legislature have proven their attention to MSMEs by launching Law no. 20 of 2021 concerning MSMEs. Classic problems such as access to capital to financial institutions are starting to be resolved. Because the regulation states the expansion of funding and facilitation by banks and non-bank financial services institutions. Saddened to provide a larger portion to micro, small and medium scale businesses. The government and legislature proved their attention to MSMEs by launching Law no. 20 of 2018 concerning MSMEs. With the existence of regulations that provide a legal umbrella, the movement of MSMEs becomes more flexible. Classic problems such as access to capital to financial institutions are starting to be resolved. Banks are starting to aggressively distribute credit to MSMEs. MSME businesses are no longer seen as second-class businesses. It is proven that credit distribution to the MSME sector is slowly experiencing growth. In general, the growth is higher than total banking credit. Figure 2 below, which is data for 2014, explains bank credit distribution. The largest portion is still held by Bank Persero, namely 50%, while National Private Banks are around 40%, BPD 7% and Foreign, Mixed Banks around 3%.
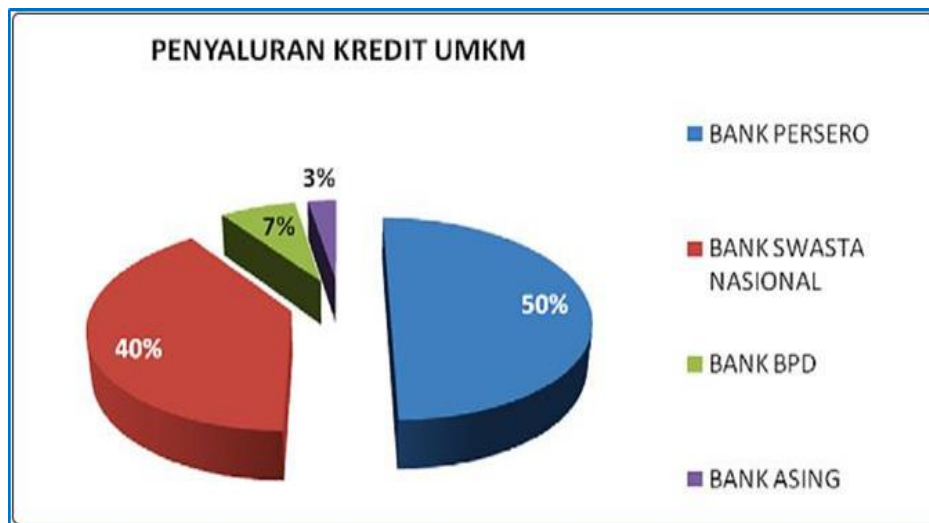
**Figure 2: Graph of MSME Credit Distribution in 2021**

Data from 2018 to 2021, based on Figure 3 below, it is clear that there has been a significant increase in credit distribution banking is done to MSMEs. The average increase in MSME credit reached 13.63% per year. With the participation of banks in the development of micro, small and medium enterprises, it is quite active. The following describes general credit distribution by commercial banks for the 2011-2014 period as an initial basis for evaluating credit distribution.
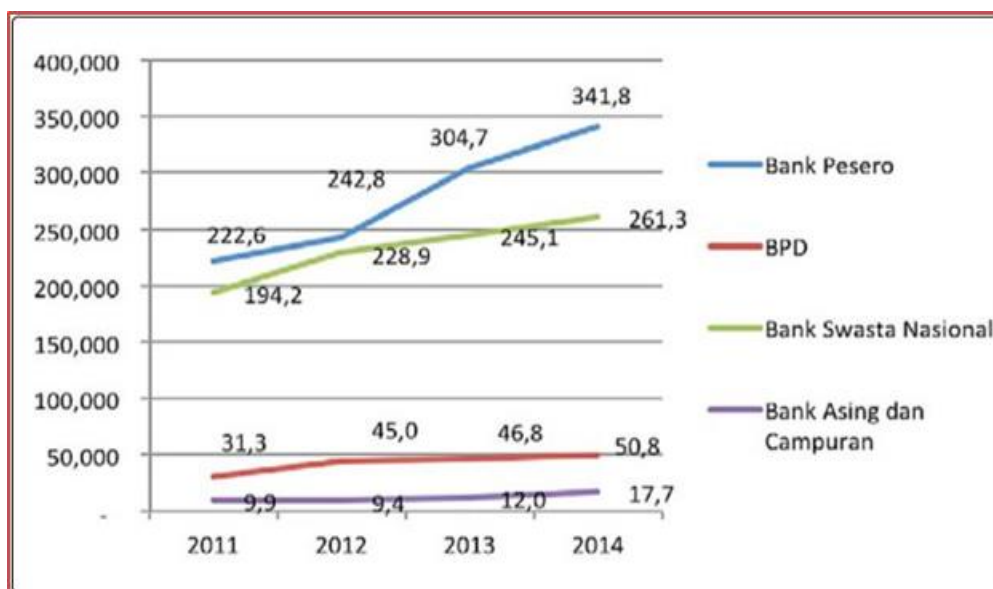


**Figure 3: Graph of MSME Credit Distribution by Commercial Banks**

Source: Bank Indonesia MSME Profile -2021

## 2. Definition of Micro, Small and Medium Enterprises

The definition of MSMEs is regulated in Law of the Republic of Indonesia Number 20 of 2008 concerning MSMEs. In Chapter 1 (General Provisions), Article 1 of the Law, it is stated that micro businesses are productive businesses owned by individuals that meet the business criteria as regulated in the Law. Small businesses are productive economic businesses that stand alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of Medium Enterprises (UM) or Large Enterprises. (UB) that meets the UK criteria as intended in the Law.

Meanwhile, UM is a productive economic enterprise that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of UM, UK, or UB that meet UM criteria as intended in the Law.

With the above criteria, a micro business is a business unit that has an asset value of at most 50 million, or with annual sales of at most 300 million; small businesses with an asset value of more than 50 million to a maximum of 500 million or have annual sales of more than IDR 300 million to a maximum of IDR 2,500,000,000; and medium enterprises are companies with a net worth of more than IDR 500 million to a maximum of IDR 100 billion or have annual sales of more than IDR 2,500,000,000 to a maximum of IDR 50 billion. Is developing, MSMEs are very important because of their main characteristics which are different from large businesses, namely: (1) The number of companies is very large (far exceeding the number of large businesses, especially from the micro and small business categories. Different from new businesses and medium businesses, micro businesses and small businesses are spread throughout rural areas, including in relatively isolated areas. (2) Because they are very labor intensive, which means they have the potential for very large growth in job opportunities, the growth of MSMEs can be included as an important element of national policy to increase employment opportunities and create income, especially for the poor. (3) Not only the majority of MSMEs, especially micro businesses, in developing countries, especially in rural areas. (4) MSMEs use technologies that are more appropriate to the proportion of factors. production factors and local conditions that exist in developing countries, namely natural resources (SDA) and low-educated labor in abundance (although the number varies according to country or region within a country), but capital and human resources (HR), or highly educated labor are very limited. (5) Many MSMEs can grow rapidly. In fact, many MSMEs were able to survive when the Indonesian economy was hit by a major crisis in 1997/1998. (6) Even though rural people are generally poor, there is a lot of evidence showing that they can save, and are willing to take risks by investing.

In this case, MSMEs can be a starting point for mobilizing savings/investment in rural areas. (7) It is proven that in general MSME entrepreneurs finance the majority of their business operations with personal savings, supplemented with assistance or loans from relatives or relatives, or from informal credit providers, traders or collectors, raw material suppliers, and advance payments from consumers. Therefore, this business group can play another important role, namely as a tool or allocate rural savings, which would otherwise be used for unproductive

purposes. (8) Even though many goods produced by MSMEs are also for middle and upper class people (although in small proportions), it is generally proven that the main market for MSMEs is simple consumer goods at relatively cheap prices to meet the daily needs of the poor. Or low income. However, there are also many MSMEs that make non-consumer goods such as production equipment, various types of simple machines, building materials, agriculture, construction, trade, tourism and transportation. (9) As part of its dynamics, many MSMEs are also able to increase their productivity through investment and technological changes/

According to Payne (in Rukminto, 2008: 77 – 78), suggests empowerment, namely: "To help clients gain power of decisions and action over their own lives by reducing the effect of social or personal blocks to exercising existing power, by increasing capacity and self-confidence to use power and by transferring power from the environment to clients".

Empowerment Dimensions to measure the magnitude of the influence of local government ayaan, there are a number of dimensions used to measure the empowerment variable. According to Michael J. (2000). Empowerment has five dimensions that can be used as measurement indicators, namely: Strength (Empowering), Protecting (Protecting), Support (Supporting), Development (Fostering).

Small and Medium Enterprises (UKM) Concept Small and medium enterprises are businesses that are independently owned and managed, and even these businesses do not always dominate the market. Small and medium businesses are not part or branches of other companies, those who run this business are the owners themselves, working freely according to their abilities (Ebert and Griffin, 2005). The Concept of Community Welfare Community welfare is a condition that shows the condition of people's lives which can be seen from the community's standard of living. According to Todaro and Stephen C. Smith (2006), community welfare shows a measure of the results of community development in achieving a better life which includes: first, increasing capabilities and equal distribution of basic needs such as food, housing, health and protection; second, increasing living standards, income levels, better education, and increasing attention to culture and human values.

### 3. MSME Business Risk Management

Risk management is a logical and systematic method for identifying, analyzing, assessing, treating, monitoring and communicating the risks inherent in each activity, function or minimizing losses and maximizing opportunities. Risk management is basically carried out through the following processes; Risk identification; Risk evaluation and measurement and risk management.

### a. Identify risks

Risk identification or risk identification meetings are carried out to identify any risks faced by the company, such as identifying fires that occur in workshops. Risk evaluation and measurement

According to the aim of risk evaluation is to understand the characteristics of risks better, making it easier to control risks.

To measure risk, an approach can be used to estimate the likelihood (probability) of risk and the level of risk consequences.
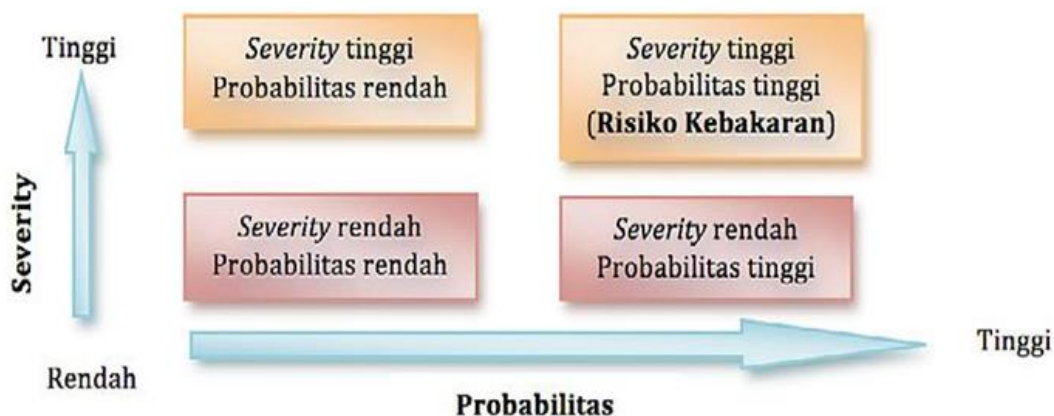


**Figure 4: Risk Measurement**

## 4. Understanding Community Economy

People's economics is the antithesis of the conglomerate economic paradigm based on mass production in the style of Taylorism. Thus, a community economy based on a network economy must adopt high technology as the factor that provides the greatest added value to the economic process itself. The economic and efficient scale factors which will be the basis of free competition require the involvement of the people's economic network, namely various centers of people's economic independence, large scale people's economic independence, large scale with a management pattern that adheres to the shortest cycle model in the form of what is often called a buyer, Therefore, the people's economic system does not just stop at the level of discourse, a number of concrete people's economic agendas must immediately be brought to the surface. What needs to be observed is that increasing people's welfare in the context of the people's economy is not based on the locomotive paradigm, but on the foundational paradigm. This means that increasing prosperity no longer relies on the dominance of the central government, foreign capital and conglomerate companies, but on the strength of regional governments, fair competition, people's agricultural efforts and the role of true cooperatives, which are expected to be able to act as a foundation for strengthening the people's economy. A development strategy that empowers the people's economy is a strategy for implementing economic democracy, namely that production is carried out by all for all and under the leadership and ownership of community members.

Brian Pratama, (2015) is a figure in new institutional economics (new institutional economics). Institutions are a pattern of relationships and order between members of a society or organization that bind each other, accommodated by a business network. Brian's opinion is

related to the existence of cooperative institutions, namely that there are binding rules or norms that must be implemented in managing cooperatives.

Articles of Association (AD) and Bylaws (ART) as rules and guidelines for achieving goals. Likewise with Ronald H. Coase in 1991. The Nobel won by these two figures also triggered the development of new institutional economics in the world today. New institutional economic thinkers reject some of the assumptions of classical/neoclassical economic teachings and consider them unrealistic, such as zero transaction costs and instrumental rationality.

Charles B. Lowry and Paul J. Hanges, 2018 that classical economics which assumes that all humans are rational and work based on economic incentives turns out that in practice there are many social, economic and political factors that influence individuals in their economic decisions. At this point, institutional economics explains that economic activities are greatly influenced by the layout between economic actors (political economy theory), the design of the rules of the game (transaction cost economic theory), the norms and beliefs of an individual/community (social capital theory), incentives for collaboration. (Collective action theory), models of agreements made (contract theory), choices regarding ownership of physical and non-physical assets (ownership rights theory), and others. In the current era of globalization, competition in the economic sector tends to get tighter over time. Therefore, every change that occurs must be taken into account and anticipated.

## 5. MSME Empowerment Concept

According to Tri Winarni, (2008) stated that empowerment is: "To help clients gain power of decisions and action over their own lives by reducing the effect of social or personal blocks to exercise existing power, by increasing capacity and self-confidence to use power and by transferring power from the environment to clients".

Empowerment Dimensions to measure the magnitude of the influence of empowerment, there are a number of dimensions used to measure the empowerment variable. According to Canet-Giner, Maria Teresa; et al. 2010, that MSME empowerment has five dimensions that can be used as measurement indicators, namely: Strength (Empowering), Protecting (Protecting), Support (Supporting), Development (Fostering). Concept of Micro, Small and Medium Enterprises (MSMEs) Small and medium enterprises are businesses that are independently owned and managed, even these businesses do not always dominate the market. Small and medium businesses are not part or branches of other companies, those who run this business are the owners themselves, working freely according to their abilities (Ebert and Griffin, 2005).

The concept of community economic welfare is a condition that shows the state of community life which can be seen from the community's standard of living. According to Todaro and Stephen C. Smith (2006), community welfare shows a measure of the results of community development in achieving a better life which includes: first, increasing capabilities and equal distribution of basic needs.

Are such as food, housing, health and protection; second, increasing living standards, income levels, better education, and increasing attention to culture and human values.

The role of Small and Medium Enterprises (UKM) in the Indonesian economy can be viewed from four aspects (Nurhajati, New Paradigm for Small and Medium Enterprise Development to Increase Economic Competitiveness, (Malang: UNISMA), 2005, p.2, namely: 1. Small and Medium Enterprises (SMEs) constitute the largest part of all business units in Indonesia 2. Small and Medium Enterprises (SMEs) play a major role in employment. 3. Small and Medium Enterprises (SMEs) make a significant contribution to Gross Domestic Product (UKM). GDP).

The importance of Small and Medium Enterprises (SMEs), which has been stated above, has led the Government to make various efforts which also demonstrate commitment to improving the performance and competitiveness of the Indonesian economy. This commitment is institutionally demonstrated through the formation of a ministry that handles small and Medium Enterprises (UKM) (Nursalam, Empowerment of Small and Medium Enterprises (UKM): 2010, p. 4). Juridically, the Government's commitment is marked by the existence of Law Number: 9 of 1995 concerning Small Enterprises, which aims to realize the role of small businesses as the backbone and strengthen the structure of the national economy in facing global competition and effective management in the development of MSMEs.

This law was followed up with Government Regulation Number: 44 of 1997 concerning Partnerships as a form of effort to create a business climate through cooperation between Small and Medium Enterprises (UKM) with Large Businesses (Nursalam: 2010 pp. 5-6). The city of Makassar has development challenges which include an ever-increasing population, limited land area, and the diversity of its society in terms of education, economy and social. One of the sectors driving the Makassar City economy is the Micro, Small and Medium Enterprises sector or called MSMEs

## RESEARCH METHODOLOGY

### 1. Research Location

The research was carried out in Makassar City, South Sulawesi Province with the basis for choosing this location because this area is the trade center of the Eastern Region of Indonesia with complex businesses and business actors coming from several regions including business immigrants from other countries (investors). And another reason is that the real business sector in this area in quantity is 87.17% of entrepreneurs in MSME status (source from Makassar City in the 2017 adoption) so that the majority of people depend on this sector for their livelihoods and it is hoped that in the future, the results of the research will become material for consideration for local government in preparing short and medium term development plans that support economic development based on people's economy and increasing the role of micro, small and medium enterprises.

### 2. Data Types and Sources

The data obtained in this research includes primary data sourced from empirical data directly collected from the research location through direct observation, interviews and distributing questionnaires. The next data is secondary data obtained through reviewing the literature in the form of books, journals and required documents.

This type of research includes those obtained from related agencies (Office of Cooperatives and SMEs, Investment and Trade, and Makassar City Statistics Office). Other data obtained was through micro business actors from several business fields, namely; culinary businesses, fisheries, agriculture, other home industries such as furniture crafts, silverware and others.

### 3. Data Collection Techniques

The technique used to obtain data is to use several methods, namely; interviews, distributing questionnaires, and literature studies. The data collection method by distributing questionnaires is intended to find out and collect data about the number of MSMEs in the sample and employment, business capital managed during the year and the level of profit obtained. Meanwhile, the data obtained through interviews is how much sales volume during the year and what costs are incurred for business management as well as facilities and infrastructure that support MSME businesses in this area.

### 4. Data analysis

Based on the data obtained from the research results, an analysis can be made that influences the level of community welfare and/or what factors drive people's economic growth in Makassar City, so that MSMEs can become a support for these development goals. In this analysis, it is related to the hypothesis that there are three variables that influence community welfare and community economic development.

To determine the factors that influence community welfare in relation to the role of MSMEs in Makassar City, multiple regression analysis was carried out with the formula:

$$Y = b_o + b_iX_1 + b_2X_2 + b_3 + \ldots\ldots\ldots Ei$$

Dimana :

Y       = Public welfare

X1      = Labor Absorption

X2`     = Marketing advantages

X3      = Operating profit

bo      = Parameters to be estimated

This research method uses the approach used above to draw a general conclusion from several observations of MSME variables in relation to community welfare and community economic development. This research uses quantitative research, namely trying to answer the magnitude of the influence of the independent variables (X1, X2 and X3) on the level of community welfare (Y). This analysis also describes the variables that most dominantly influence community welfare through a cause and effect process resulting from the role of people's economic development at a macro level. To see the results of the statistics regarding partial and simultaneous influences, through the multiple regression test in the formulation above, the t-count and F-count values will be obtained, if the results of both the t-count and F-count values are greater than t and F table, then H0 is rejected and H1 is accepted.

## RESULTS AND DISCUSSION

### 1. Makassar City MSME Business Turnover (average)

Based on the previous data in table 1, during the five years 2014-2018, there was growth in MSMEs, but the decline in business turnover reached an average of 19.95% each year, next the labor absorption rate also fell on average to 12.92%. The sales turnover described is sourced from 2018 Makassar City statistical data and the results of interviews with several micro, small and medium enterprises that were the sample for this research. The sampling method is that every year, 30% of the population studied is taken with a questionnaire instrument distributed through team collaboration, including management graduate students as guidance. The following is a five-year turnover development table.

**Table 2: Development of Production Value 2018-2022**

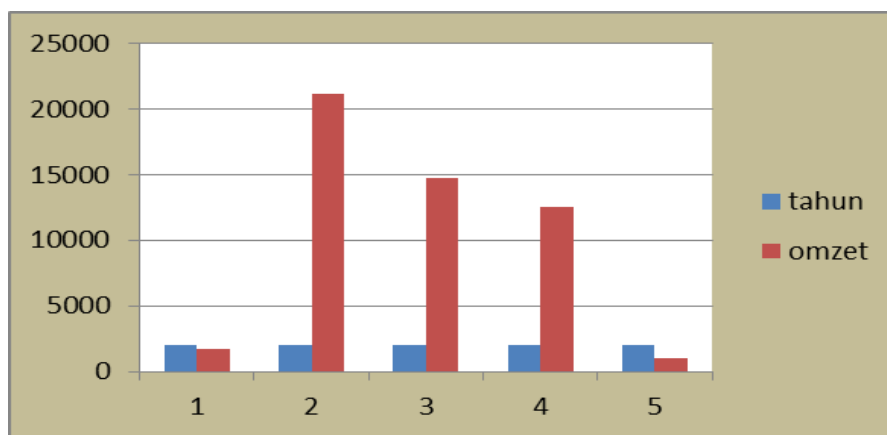| Year | Production Value (Rp.) | (%) |
|------|------------------------|------|
| 2016 | 11,38 M | - |
| 2017 | 14.45 M | + 2,15 % |
| 2018 | 13,14 M | -1,87 % |
| 2019 | 10,95 M | -3,26 % |
| 2020 | 13,69 M | +2,71 % |

Source: Data after processing



**Figure 5: Graph of development of business turnover in MSMEs**

### 2. Development of Investment and Business Capital for MSMEs

At a micro level, MSME businesses in Makassar City need to be developed because economic growth, both regionally and nationally, requires investment support. In the conditions of limited investment and/or business capital experienced by micro, small and medium businesses in Makassar City, investment needs to be directed to business sectors that do not utilize imported raw materials. According to one of the small business operators in this city, Br. H. Rahman Bettada said that in the current economic conditions of the nation, especially in Makassar City, we need to be careful about investing in goods and services on a large scale because consumer purchasing power has decreased while business costs tend to become more expensive.

The following describes the development of MSME investment in Makassar City over five years:

**Table 3: Development of MSME Turnover in Makassar City**

| Year | Investment | (%) |
|------|-----------|-----|
| 2018 | 14,79 M | - |
| 2019 | 17,34 M | +4,12 % |
| 2020 | 14,45 M | -3,09 % |
| 2021 | 12,05 M | -2,13 % |
| 2022 | 14,38 M | -2,38 % |

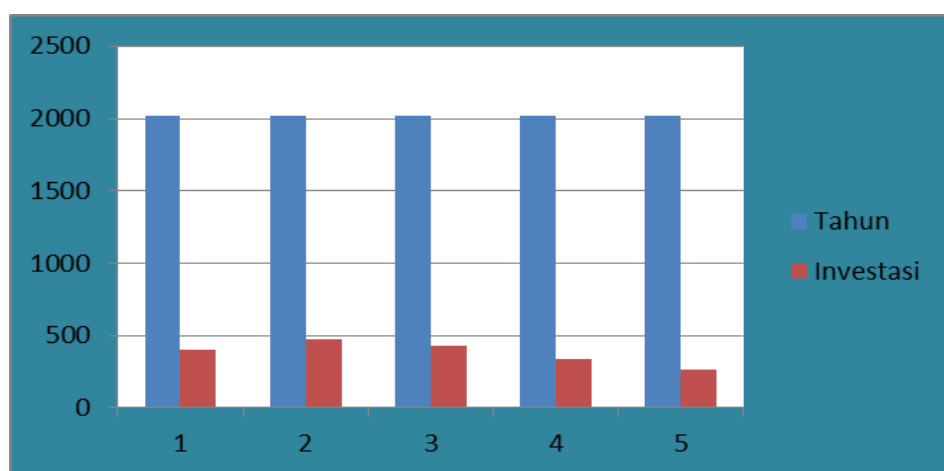Source: Data after processing



**Figure 6: Graph of MSME investment development**

## 3. Development of MSME Workforce Absorption

Some of the important roles of MSMEs in the growth of the people's economy in this area are their position as main players in economic activities in various sectors, namely: providing the largest employment opportunities; important player in the development of local economic activities and community empowerment; creator of new markets and source of innovation; as well as its contribution in maintaining the balance of payments through export activities.

On the basis of this description, the following describes the employment of MSMEs in five years:

**Table 4: Development of MSME Labor Absorption**

| Year | Labor Costs | (%) |
|------|-------------|-----|
| 2018 | 1.204 person | - |
| 2019 | 965 person | -19,85 % |
| 2020 | 861 person | -10,77 % |
| 2021 | 948 person | +10,11% |
| 2022 | 758 person | -20,04 % |

Source: Data after processing
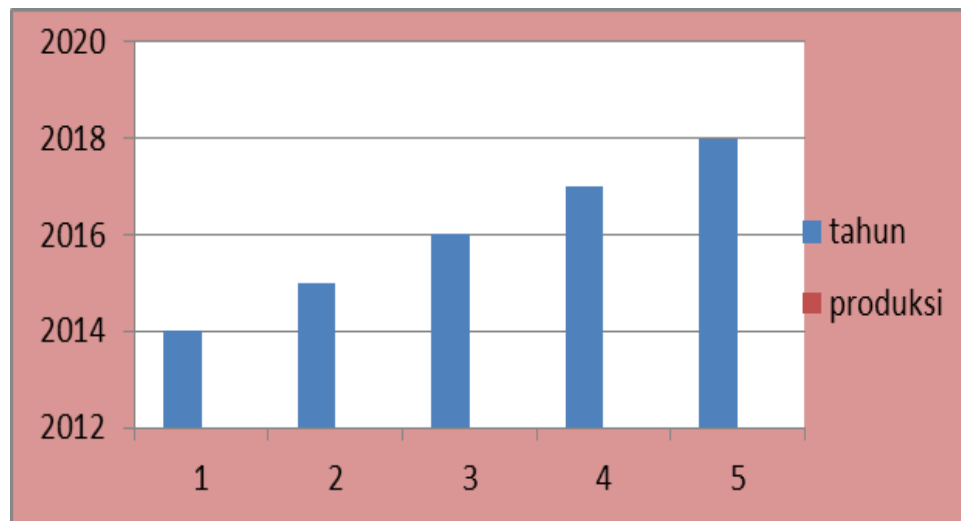
## 4. The influence of labor absorption (X1), business capital (X2) and profits (X3) on community welfare

Interpretation of the results of the following multiple data processing shows the influence of the three variables mentioned above simultaneously as follows:

$$Y = 14{,}372 + 2{,}019\, X_1 + 2{,}546\, X_2 + 3{,}024\, X_3$$

(Data: primary after statistical formulation processing)

Empowerment of small and medium enterprises in Makassar City in the results of multiple regression analysis, the business profits obtained contributed to economic development based on people's economics reaching 3.024 (X3) and then X2 of 2.546. This means that it has a real influence on urban economic development in Makassar.

## CONCLUSION

After conducting research and discussion as presented in the previous chapter, conclusions can be drawn:

a. Through data testing, the labor absorption variable in MSMEs (X1) has a dominant influence on the level of community welfare in Makassar City.

b. The business capital and profit variables (X2 and

c. For partial and simultaneous influence, these three variables give positive values with the statement that both t-count and F-count are greater than the t-table and F table, or in other words, H0 is rejected and H1 is accepted.

The final conclusion is that the empowerment of micro, small and medium enterprises is the main support for regional economic growth and the doors to employment opportunities are opened so that the unemployment rate is reduced and the welfare of the community increases.

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