

The Effect of Public Investment and Governance in Enhancing MSME Growth through Investment Attractiveness

The Effect of Public Investment and Governance

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in regional economic development and employment creation in Indonesia. This study examines how public investment influences MSME growth through investment attractiveness and governance. Using a quantitative explanatory design, data were collected from 336 MSME actors and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings show that public investment has a significant direct effect on MSME growth, but its strongest effect is on investment attractiveness. Investment attractiveness significantly enhances MSME growth and serves as the dominant mediating mechanism linking public investment to business growth. Governance also contributes directly to MSME growth. However, it does not moderate the relationship between public investment and MSME growth. These findings indicate that MSME growth is driven more strongly by the improvement of regional investment attractiveness than by direct public spending alone. The study contributes to MSME and regional development literature by positioning investment attractiveness as a key transmission mechanism and governance as an independent institutional driver. The findings suggest that local governments should design public investment as an integrated regional competitiveness strategy to strengthen infrastructure, licensing efficiency, market access, and MSME development.

Keywords: Governance Quality, Investment Attractiveness, MSME Growth, Public Investment, Regional Competitiveness.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a key driver of economic growth, employment, and inclusive development in developing economies, yet they continue to face structural constraints such as limited infrastructure, financing barriers, restricted market access, and weak institutional support. Public investment is commonly used to address these challenges through infrastructure development and regional support programs (Gurara et al., 2018). However, MSME performance is also increasingly shaped by broader ecosystem factors, including digital transformation, financial inclusion, and institutional support (Tandilino et al., 2025). Digital marketing and e-commerce adoption enhance MSME performance and resilience during economic shocks, while digital inclusive finance improves access to finance and sustainability (Khandelwal & Priya, 2020; Gao et al., 2023; Asraf et al., 2024b). Nonetheless, financial exclusion and institutional inequality remain key barriers in developing regions, indicating that public investment alone is insufficient without a supportive ecosystem (Simba et al., 2024).

Building on this perspective, recent studies increasingly emphasize that the impact of public investment on economic outcomes is not purely direct but operates through indirect

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structural mechanisms. One of the most important mechanisms is investment attractiveness, which reflects the overall quality of infrastructure, institutional support, market potential, and the business environment (Grabar et al., 2019; Yaskov & Smiesova, 2025). Empirical evidence from various regions supports this perspective. Infrastructure development has been shown to enhance regional economic performance by attracting firms and stimulating economic activity, while institutional quality strengthens the returns of infrastructure investment and promotes sustainable growth (Mačiulytė-Šniukienė et al., 2022; Vasilakos, 2023). In addition, investment attractiveness is shaped by economic structure, industrial capacity, and business friendliness, which collectively determine regional competitiveness (Wei, 2020). In China, new infrastructure investment improves economic growth quality through technological upgrading and industrial transformation, while cross-country evidence highlights that the interaction between infrastructure and institutional quality is essential for maximizing development outcomes (Zergawu et al., 2020; Du et al., 2022). Furthermore, the neo-institutional perspective emphasizes that reducing corruption, improving access to finance, and strengthening institutional support significantly enhance regional attractiveness and economic performance (Gamidullaeva, 2019).

Empirical evidence by Bouhlel (2024) shows that governance quality, as reflected in transparency, regulatory effectiveness, accountability, and corruption control, enhances investment climates by increasing investor confidence and reducing uncertainty. Evidence by Tachea et al. (2025) indicates that governance reforms in emerging economies significantly improve investment flows and economic performance. Findings by Farooq et al. (2022) show that strong governance is associated with higher industrial investment and lower investment risk. Studies by Hong et al. (2025) demonstrate that digital governance systems improve institutional efficiency and public service delivery, thereby strengthening the business environment. Evidence by Abdulai et al. (2024) in Sub-Saharan Africa shows that institutional quality reduces transaction costs and promotes private investment, although it may also reveal inefficiencies in public investment allocation. These empirical findings confirm that governance is a key institutional determinant shaping investment conditions and MSME development outcomes. Nevertheless, the relationship between public investment, investment attractiveness, governance, and MSME growth remains underexplored in an integrated manner. Existing studies generally examine these variables separately, focusing on infrastructure development, institutional quality, or MSME performance without combining them into a unified analytical framework. In particular, the moderating role of governance in strengthening or altering the effect of public investment on MSME growth has received limited empirical attention, creating a clear gap in understanding how structural and institutional factors jointly drive MSME development.

This gap is more evident in regional contexts such as Southeast Sulawesi, Indonesia. Although public investment and MSME development programs have increased, limited empirical evidence explains how these investments translate into stronger investment attractiveness and ultimately MSME growth. As a developing region with growing economic potential, Southeast Sulawesi provides a relevant context to examine whether public investment effectively improves the investment climate and supports sustainable MSME development.

Addressing this gap, this study proposes an integrated model that examines both the direct and indirect effects of public investment on MSME growth through investment attractiveness, while also incorporating governance as a moderating variable. By doing so, the study moves beyond the traditional direct-effect perspective and introduces a more comprehensive explanation of MSME growth that combines structural and institutional mechanisms. This study contributes by positioning investment attractiveness as a key mediating mechanism explaining how public investment translates into MSME growth, integrating governance as a moderating variable that shapes the effectiveness of public investment, and providing context-specific evidence from Southeast Sulawesi that

enriches regional development literature in emerging economies with diverse structural and institutional conditions.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect on MSME Growth

Public investment refers to government spending on infrastructure, public facilities, and economic development programs that support productive activities (Gitonga et al., 2022). In developing regions, MSMEs face constraints such as weak infrastructure, limited market access, and high transaction costs, which can be reduced through improved roads, logistics, and economic facilities. Empirical studies show that public and infrastructure investment enhances productivity, firm location decisions, and regional performance (Maciulyte-Sniukiene & Butkus, 2022; Vasilakos, 2023). In the MSME context, better infrastructure lowers costs, improves market access, and strengthens distribution systems, while evidence in Indonesia also confirms its role in supporting local productivity and economic growth (Alie, 2025).

Investment attractiveness reflects the extent to which a region provides a favorable environment for business development, including infrastructure quality, market potential, labor availability, and ease of doing business. Regions with high investment attractiveness reduce business uncertainty and enable MSMEs to expand markets, improve efficiency, and sustain operations. The literature suggests that regional attractiveness is important not only for large investors but also for MSMEs that depend on local conditions and infrastructure. Rodionov et al. (2021) highlight that investment attractiveness helps identify viable business development directions, while infrastructure improvements enhance regional productivity and economic performance (Du, 2022; Vasilakos, 2023).

Governance refers to the quality of public administration, including transparency, accountability, regulatory effectiveness, and corruption control. For MSMEs, governance is important because it affects licensing, regulatory certainty, and bureaucratic efficiency. Good governance reduces uncertainty, strengthens institutional trust, and creates a stable business environment. Empirical evidence shows that institutional quality and infrastructure jointly enhance economic growth, with stronger effects when governance is effective (Zergawu et al., 2020). In Indonesia, governance quality is also associated with MSME development through improved regulation and reduced corruption.

H1: Public investment has a positive effect on MSME growth.

H2: Investment attractiveness has a positive effect on MSME growth.

H3: Governance has a positive effect on MSME growth.

The Effect of Public Investment on Investment Attractiveness

Investment attractiveness refers to the extent to which a region is perceived as favorable for investment and business activity (Alexandrov et al., 2021; Moskalenko et al., 2022). It is influenced by infrastructure availability, market potential, regulatory convenience, labor supply, business security, and government support. In this context, public investment plays a fundamental role because it improves the physical, institutional, and economic conditions required for efficient business operations and investment activities (Beisengaliyev & Shynar, 2025). A comprehensive regional perspective suggests that areas become more attractive when they are able to offer a balanced combination of infrastructure quality, economic potential, institutional support, and sectoral development opportunities (Rodionov et al., 2021; Deng et al., 2022).

Public investment in infrastructure also functions as a strategic signal of government commitment to regional development, which in turn strengthens investor confidence and reduces perceived investment risk (Jiang & Martek, 2024). Place-based infrastructure investment has been shown to improve regional economic performance by influencing firm location decisions and encouraging economic activity in lagging or less developed regions (Tang & Beer, 2022; Vasilakos, 2023). This indicates that infrastructure

development not only serves physical needs but also shapes spatial economic behavior and investment distribution.

Furthermore, evidence from China demonstrates that new infrastructure investment contributes to higher-quality economic growth by improving productivity, supporting industrial upgrading, and accelerating technological innovation (Du, 2022). These improvements strengthen the overall competitiveness of a region and make it more attractive for both domestic and external investment. These findings suggest that public investment plays a dual role: it directly enhances economic capacity through infrastructure provision and indirectly strengthens regional investment attractiveness by improving competitiveness, efficiency, and long-term growth potential.

H4: Public investment has a positive effect on investment attractiveness.

The Moderating Effect of Governance

Beyond its direct effect, governance plays a crucial role in determining how effectively public investment is translated into MSME growth (Purnomo & Purwandari, 2025; Tiwari et al., 2025). Good governance ensures that public resources are allocated transparently, efficiently, and in alignment with local economic priorities, thereby increasing the likelihood that investments target productive infrastructure, accessible public facilities, and MSME-supporting programs (Islam et al., 2025; Singh & Bajpai, 2025). When governance quality is high, public investment becomes more effective in addressing structural constraints faced by MSMEs, such as inadequate infrastructure, limited market access, and high operational costs, ultimately strengthening their growth potential and competitiveness.

Empirical studies support the importance of governance as a conditioning factor in the effectiveness of infrastructure investment. Zergawu et al. (2020) demonstrate that infrastructure capital and institutional quality jointly influence economic growth, indicating that institutional conditions determine the extent of returns from public investment. Similarly, Mačiulytė-Šniukienė et al. (2022) find that infrastructure contributes to economic growth in the European Union, but its impact is closely linked to institutional environment quality and lower levels of corruption. These findings suggest that governance not only complements public investment but may also strengthen its impact on MSME growth by ensuring more efficient and targeted allocation of development resources.

H5: Governance moderates the relationship between public investment and MSME growth.

The Mediating Effect of Investment Attractiveness

Although public investment can directly influence MSME growth, its impact may also occur indirectly through investment attractiveness. Public investment improves infrastructure, market facilities, logistics accessibility, public services, and overall regional competitiveness (Kyriacou et al., 2019). These improvements enhance the attractiveness of a region for business activity, thereby creating better market opportunities, stronger business networks, and a more supportive environment for MSME operations. As regional conditions improve, MSMEs are better able to expand markets, reduce operational constraints, and increase productivity and business performance more sustainably.

This mediation mechanism is strongly supported by regional development literature. Vasilakos (2023) shows that infrastructure investment can attract firms and improve regional economic performance through enhanced spatial competitiveness and better firm location decisions. In addition, Rodionov et al. (2021) explain that regional investment attractiveness is shaped by a combination of infrastructure quality, institutional support, economic potential, and sectoral development opportunities that collectively determine regional competitiveness. Furthermore, Du et al. (2022) emphasize that infrastructure and

institutional improvements contribute not only to economic expansion but also to higher-quality and more sustainable growth outcomes through productivity gains and industrial upgrading. Based on these arguments, investment attractiveness is expected to serve as a key mediating mechanism linking public investment and MSME growth by translating infrastructure development into broader economic opportunities.

H6: Investment attractiveness mediates the relationship between public investment and MSME growth.

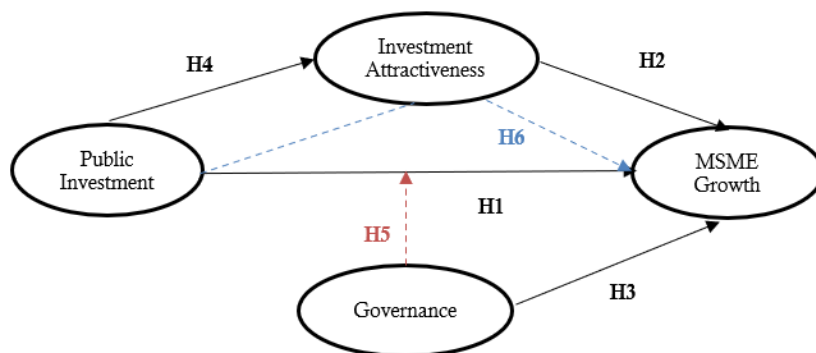


Figure 1. Research Framework

Figure 1 illustrates the proposed research framework in which public investment directly influences MSME growth and also enhances investment attractiveness. Investment attractiveness is expected to contribute positively to MSME growth, while governance directly supports MSME growth and strengthens the relationship between public investment and investment attractiveness. The framework highlights the interconnected role of public investment, governance, and investment attractiveness in promoting MSME growth.

RESEARCH METHODS

This study employed a quantitative explanatory research design to examine the relationships among public investment, investment attractiveness, governance, and MSME growth. The explanatory approach is appropriate for testing theoretically derived hypotheses and identifying causal relationships among latent constructs. Given the complexity of the model, which includes both mediating and moderating effects, Partial Least Squares Structural Equation Modeling (PLS-SEM) was used as the main analytical technique. PLS-SEM is widely recommended for predictive and theory-building research, particularly when the objective is to explain variance and identify key driver constructs rather than confirm established theory, as well as for handling complex models with multiple indicators and constructs (Sarstedt et al., 2021).

The study was conducted in Southeast Sulawesi, Indonesia, a developing region characterized by increasing public investment and a growing MSME sector, making it relevant for analyzing the role of public investment in MSME development within evolving institutional and economic conditions. The population consisted of MSME actors, selected using purposive sampling with inclusion criteria of at least one year of business operation to ensure informed responses. A total of 336 valid responses were obtained, exceeding the minimum requirements for PLS-SEM and ensuring adequate statistical power for model estimation. Data were collected through a structured questionnaire measuring perceptions of public investment, investment attractiveness, governance, and MSME growth. Respondents were informed about the study purpose, assured confidentiality and anonymity, and only fully completed responses were included in the final analysis.

All constructs were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The measurement items were adapted from established literature and adjusted to the regional context of Southeast Sulawesi. Public investment was measured through indicators such as infrastructure development, government capital expenditure, access to economic facilities, MSME support facilities, and investment distribution. Investment attractiveness was assessed based on infrastructure availability, ease of licensing, market potential, labor availability, business security, and government support. MSME growth was measured through revenue growth, customer growth, market expansion, workforce growth, asset growth, and business sustainability. Meanwhile, governance was measured using indicators of transparency, accountability, regulatory quality, public service effectiveness, stakeholder participation, and corruption control.

Data analysis was conducted using PLS-SEM, consisting of measurement model and structural model evaluation. The measurement model was assessed through indicator loadings, internal consistency reliability, and convergent validity. Indicator loadings above 0.70 were considered acceptable, although slightly lower values could still be retained when construct reliability remained adequate (Hair et al., 2024). Reliability was tested using Cronbach’s alpha and composite reliability with a threshold of 0.70, while convergent validity was assessed using Average Variance Extracted (AVE) with a minimum value of 0.50. Discriminant validity was evaluated using the Fornell–Larcker criterion and the Heterotrait–Monotrait Ratio (HTMT), where the square root of AVE must exceed inter-construct correlations and HTMT values should be below 0.90 (Henseler et al., 2015).

The structural model was assessed using path coefficients, standard errors, t-statistics, and p-values obtained through bootstrapping procedures. The model examined direct relationships among public investment, investment attractiveness, governance, and MSME growth, as well as the mediating role of investment attractiveness and the moderating role of governance. The mediating effect was tested through the indirect effect of public investment on MSME growth, where significance indicates mediation (Hair et al., 2024). Meanwhile, the moderating effect of governance was evaluated using an interaction term between governance and public investment, where the significance of the interaction determines its moderating role.

RESULTS

A total of 336 valid responses were included in the analysis. The sample represents MSME actors across Southeast Sulawesi, covering diverse demographic and business characteristics. The distribution indicates a predominance of female respondents and concentration in the productive age group, with most businesses operating in trade and service sectors and classified as micro enterprises.

Table 1. Respondent Characteristic

Category	Description	Frequency	Percentage (%)
Gender	Male	142	42.3
	Female	194	57.7
Age	< 25 years	48	14.3
	25–34 years	126	37.5
	35–44 years	98	29.2
	45–54 years	44	13.1
	> 54 years	20	6.0
Education	High School	102	30.4
	Diploma	68	20.2
	Bachelor	132	39.3
	Master	28	8.3
	Doctorate	6	1.8
Business Sector	Trade	118	35.1
	Services	92	27.4
	Manufacturing	74	22.0
	Agriculture/Fishery	52	15.5

Table 1 shows that the majority of respondents are female (57.7%) and predominantly within the productive age group of 25–34 years (37.5%), indicating an active MSME workforce base. In terms of education, most respondents hold a bachelor’s degree (39.3%), followed by high school and diploma levels, reflecting a relatively well-educated MSME population. Regarding business sectors, trade dominates (35.1%), followed by services (27.4%), manufacturing (22.0%), and agriculture/fishery (15.5%). Overall, the sample represents a diverse and economically active group of MSME actors across education levels and business sectors.

Table 2. Measurement Model Results

Variable	Indicator Code	Outer Loadings	Cronbach’s Alpha	CR	AVE
Investment Attractiveness	IA1	0.761	0.820	0.827	0.525
	IA2	0.729			
	IA3	0.755			
	IA4	0.756			
	IA5	0.687			
	IA6	0.652			
Public Investment	PI1	0.641	0.816	0.827	0.578
	PI2	0.773			
	PI3	0.801			
	PI4	0.816			
	PI5	0.758			
MSME Growth	MG1	0.670	0.864	0.866	0.598
	MG2	0.750			
	MG3	0.803			
	MG4	0.787			
	MG5	0.790			
	MG6	0.830			
Governance	GOV1	0.710	0.865	0.865	0.598
	GOV2	0.765			
	GOV3	0.772			
	GOV4	0.779			
	GOV5	0.813			
	GOV6	0.795			

Table 2 shows that all constructs meet the required standards of validity and reliability in the measurement model. The indicator loadings are generally above the acceptable threshold, indicating that each item appropriately represents its respective construct. Internal consistency is confirmed through Cronbach’s alpha values, including investment attractiveness (0.820), public investment (0.816), MSME growth (0.864), and governance (0.865), all of which exceed the recommended level of 0.70. Composite reliability values similarly indicate strong reliability across all constructs, confirming consistency among measurement items.

In addition, convergent validity is supported by AVE values above 0.50 for all variables, including investment attractiveness (0.525), public investment (0.578), MSME growth (0.598), and governance (0.598), indicating that each construct is well explained by its indicators. All constructs exceed the recommended thresholds, confirming satisfactory reliability and convergent validity. Therefore, the measurement model is considered robust and suitable for structural analysis, with investment attractiveness, public investment, MSME growth, and governance confirmed as valid and reliable for further analysis.

Table 3. Discriminant Validity (HTMT)

Construct	IA	PI	MG	GOV
Public Investment (PI)	0.827	–		
MSME Growth (MG)	0.846	0.845	–	
Governance (GOV)	0.847	0.766	0.890	–
GOV × PI	0.285	0.142	0.262	0.301

Table 3 shows that all HTMT values are below the conservative threshold of 0.90, indicating that each construct is empirically distinct from the others. This confirms that investment attractiveness, public investment, MSME growth, and governance measure different conceptual dimensions without significant overlap. Therefore, the results demonstrate acceptable discriminant validity, ensuring that the constructs are suitable for further structural model analysis.

Table 4. Discriminant Validity (Fornell-Lacker)

Construct	IA	PI	MG	GOV
Investment Attractiveness (IA)	0.724			
Public Investment (PI)	0.703	0.760		
MSME Growth (MG)	0.801	0.717	0.773	
Governance (GOV)	0.722	0.651	0.775	0.773

Table 4 confirms discriminant validity using the Fornell–Larcker criterion, where the square root of AVE for each construct is higher than its correlations with other constructs. This indicates that investment attractiveness, public investment, MSME growth, and governance are empirically distinct and measure different underlying concepts. Therefore, the results confirm that the measurement model satisfies discriminant validity requirements and is suitable for further structural analysis.

Table 5. Structural Model Results

Hypothesis	Relationship	β	t-statistic	p-value	Result
H1	Public Investment \rightarrow MSME Growth	0.209	4.842	0.000	Supported
H2	Investment Attractiveness \rightarrow MSME Growth	0.400	8.476	0.000	Supported
H3	Governance \rightarrow MSME Growth	0.345	7.121	0.000	Supported
H4	Public Investment \rightarrow Investment Attractiveness	0.703	24.019	0.000	Supported
H5	Governance \times Public Investment \rightarrow MSME Growth	0.015	0.754	0.451	Not Supported

Table 5 shows that public investment has a positive and significant effect on MSME ($\beta = 0.209$), indicating that higher public investment directly contributes to improved MSME performance through better infrastructure provision, economic facilities, and regional development support. Investment attractiveness has the strongest positive effect on MSME ($\beta = 0.400$), suggesting that regions with higher attractiveness, characterized by better infrastructure, market potential, ease of licensing, and business support, play a dominant role in driving MSME development. Governance also shows a significant positive effect on MSME ($\beta = 0.345$), confirming its important institutional role in creating a stable, transparent, and efficient business environment that supports MSME sustainability and expansion.

In addition, public investment has a very strong positive effect on investment attractiveness ($\beta = 0.703$), indicating that government spending is a key determinant in shaping regional competitiveness and enhancing the overall investment climate. This shows that public investment not only has a direct effect on MSMEs but also has an indirect effect through improved investment attractiveness. However, the interaction effect between governance and public investment is not significant ($p = 0.451$), meaning governance does not moderate the relationship between public investment and MSME. This suggests that governance acts more as an independent direct factor rather than a strengthening mechanism in this model.

Table 6. Indirect effect

Component	Result
Hypothesis	H6
Path	Public Investment → Investment Attractiveness → MSME Growth
β	0.281
t-statistics	7.859
p-value	0.000
Result	Supported

Table 6 shows, indirect effect of public investment on MSME growth through investment attractiveness is positive and significant. Importantly, the magnitude of the indirect effect (0.281) exceeds the direct effect (0.209), indicating that investment attractiveness serves as the dominant transmission mechanism. This finding confirms the presence of partial mediation with a dominant indirect pathway, suggesting that public investment contributes more effectively to MSME growth by improving the regional investment environment rather than through direct economic intervention alone.

DISCUSSION

The findings indicate that MSME development in Southeast Sulawesi is driven by both direct and indirect effects of public investment, with investment attractiveness as the dominant pathway. Although public investment has a significant direct effect on MSME performance, its impact becomes stronger when it enhances regional investment attractiveness through improved infrastructure, market access, licensing efficiency, and overall business ecosystem readiness. This supports Vasilakos (2023), who emphasizes that infrastructure investment improves regional performance mainly by strengthening firm location decisions and regional competitiveness rather than direct economic effects. The moderate direct effect further suggests that public spending alone is insufficient to drive MSME growth unless it is accompanied by structural improvements in the business environment, reinforcing the view that public investment functions more effectively as a strategic enabler of regional economic systems rather than merely a fiscal intervention.

The strongest relationship observed in the model is between public investment and investment attractiveness, confirming that public spending primarily functions as a structural enabler of regional competitiveness. Investment attractiveness, as conceptualized by Rodionov et al. (2021), reflects a combination of infrastructure quality, market potential, institutional support, and business climate conditions. The findings reinforce this view by showing that public investment significantly strengthens these dimensions, thereby enhancing the overall appeal of the region for economic activity. This also corresponds with Du et al. (2022), who find that infrastructure investment improves not only economic expansion but also the quality of growth through productivity gains and structural transformation.

Investment attractiveness, in turn, plays a dominant role in driving MSME performance. Regions with higher attractiveness provide MSMEs with better infrastructure, more accessible markets, improved labor availability, and stronger institutional support. These conditions enable MSMEs to expand operations, increase revenue, and sustain long-term business activities. This finding is consistent with Asraf et al. (2025), who emphasize that MSME growth is strongly influenced by external ecosystem conditions such as market connectivity and institutional support, rather than internal firm capacity alone. Thus, MSME development in this context is largely ecosystem-dependent (Asraf et al., 2024a).

Governance also shows a significant direct effect on MSME performance, confirming its role as a critical institutional determinant. Transparent, accountable, and effective governance improves regulatory certainty and reduces administrative burden, which is particularly important for MSMEs that are highly sensitive to bureaucratic inefficiencies. This supports Zergawu et al. (2020), who argue that institutional quality and infrastructure jointly determine economic outcomes. However, the non-significant moderating effect of governance indicates that it does not strengthen the relationship

between public investment and MSME performance. Instead, governance operates as an independent driver rather than a conditional mechanism. This suggests that MSME actors perceive governance as a direct institutional environment rather than a factor that alters the effectiveness of public spending.

The results refine existing literature in three ways. First, they shift the explanation of MSME growth from a direct fiscal approach toward a structural ecosystem perspective. Second, they establish investment attractiveness as the central transmission mechanism linking public investment and MSME development. Third, they reposition governance as an independent institutional determinant rather than a moderating factor. This is particularly relevant for developing regions where infrastructure gaps and institutional constraints coexist, such as Southeast Sulawesi (Saeka & Asraf, 2024; Rindrasih & Saputra, 2025).

These findings imply that policy strategies should move beyond increasing public expenditure toward improving the transformation of investment into regional competitiveness. Public investment should be directed toward infrastructure that directly supports MSME productivity, while simultaneously strengthening licensing systems, regulatory efficiency, and service delivery. In this sense, MSME growth is not determined by how much the government spends, but by how effectively public investment enhances regional attractiveness and institutional quality.

CONCLUSION

This study concludes that MSME growth in Southeast Sulawesi is driven by a combination of public investment, regional investment attractiveness, and governance. Public investment has a significant direct effect on MSME growth. However, its stronger contribution occurs through investment attractiveness. This indicates that public spending becomes more effective when it improves infrastructure, market access, business facilities, licensing convenience, and the broader regional business environment. Investment attractiveness emerges as the dominant mechanism linking public investment to MSME growth. This finding confirms that public investment should not be viewed merely as fiscal intervention, but as a structural enabler that strengthens regional competitiveness and creates better opportunities for MSMEs to expand and sustain their businesses.

Governance also contributes directly to MSME growth, suggesting that transparency, accountability, regulatory quality, public service effectiveness, and corruption control remain essential institutional foundations for MSME development. However, governance does not moderate the relationship between public investment and MSME growth, indicating that governance functions more as an independent institutional driver than as a condition that strengthens or weakens the effect of public investment. This study contributes to MSME and regional development literature by positioning investment attractiveness as a key mediating mechanism and by refining the role of governance in public investment models. The findings suggest that local governments should design public investment as part of an integrated regional competitiveness strategy, rather than merely as budgetary spending.

This study is limited by its cross-sectional design and focus on MSMEs in Southeast Sulawesi, which restricts generalizability and the ability to capture dynamic changes over time. Future research is encouraged to adopt longitudinal and comparative regional approaches across different institutional contexts to validate the proposed model. In addition, incorporating variables such as digital infrastructure, financial inclusion, entrepreneurial orientation, innovation capability, and supply chain integration may provide a more comprehensive explanation of MSME growth in emerging economies.

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