

The Role of MSMEs and Financial Institutions in Economic Performance: A Development Strategy in West Java

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ABSTRACT

Purpose - Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in Indonesia's economy. The purpose of this study is to examine the influence of micro, small, and medium enterprises (MSMEs) and financial institutions on regional economic performance, and to formulate strategies for MSME development in West Java.

Design/methodology/approach - The data employed are secondary data from 2019–2025, analyzed using panel data regression. Meanwhile, MSME development strategies were examined using the Analytical Network Process (ANP), which involved seven respondents: three MSME actors, three regional development planners, and one academician.

Finding/Results - The findings reveal that cooperative capital, the number of banks, and the number of MSMEs have significant positive effects on GDP per capita, whereas the number of cooperatives does not. In relation to unemployment and poverty, the number of cooperatives, cooperative capital, and the number of MSMEs have a significant negative effect, while the number of banks is not. For the ANP objectives, four criteria are identified: strengthening the institutional capacity of MSMEs, optimising the role of financial institutions, optimising the role of cooperatives, and enhancing the capacity of MSME actors.

Originality/Value - Furthermore, MSME development in West Java is characterized by two principal strategies: the government's establishment of a specialized supervisory institution for MSMEs and the formulation of an action plan to strengthen financial inclusion.

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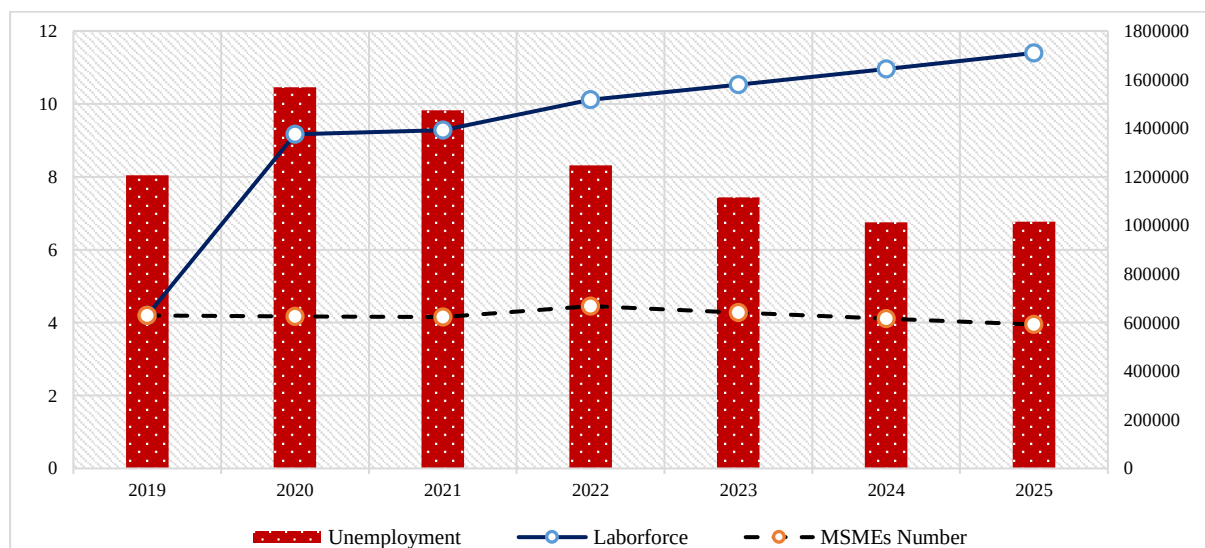


1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are often defined as small- and medium-scale community-based economic activities; however, they play a pivotal role in Indonesia's economy (Hasan et al., 2024; Rosyidiana & Narsa, 2024). This assertion was substantiated during the 1998 monetary crisis and the 2019 COVID-19 pandemic (Purwani et al., 2025; Tambunan, 2020). In recognition of their resilience, the Ministry of Finance declared MSMEs to be the backbone of Indonesia's independent economy, with considerable potential to enhance societal welfare. MSMEs fulfill three principal functions within the national economy: first, as a mechanism for equitable distribution of income among lower-income groups; second, as an instrument for poverty alleviation; and third, as a source of foreign exchange revenue (Wahyudi et al., 2024). Although the majority of MSMEs in Indonesia remain household-based enterprises, their presence has proven capable of absorbing substantial labor. Data from the Ministry of Cooperatives showed that in 2022, among the 65.4 million MSMEs, 123.3 thousand individuals were employed, representing 97% of the total national workforce. Their contribution to GDP was 60.5% (Anatan & Nur, 2023; Maryanti et al., 2026; Widita et al., 2024). These conditions underscore the significant impact and contribution of MSMEs in reducing unemployment and improving welfare in Indonesia.

West Java, as one of Indonesia's provinces, hosts a considerable number of Micro, Small, and Medium Enterprises (MSMEs). In 2019, approximately 629,597 MSME units were recorded in the province; however, their number declined at an average annual rate of 0.5%, reaching 592,360 units in 2025. Paradoxically, this reduction in MSME units was accompanied by a 42% increase in employment during the same period. Encouragingly, unemployment decreased by 2.8% over this timeframe. A sharp rise in employment was particularly evident in 2020 and 2021, following the end of the COVID-19 pandemic, while the number of MSMEs remained relatively stable with a slight downward trend (Figure 1). This indicates that, despite the decline in MSME units, their capacity to absorb labor and their impact on reducing unemployment remain substantial.

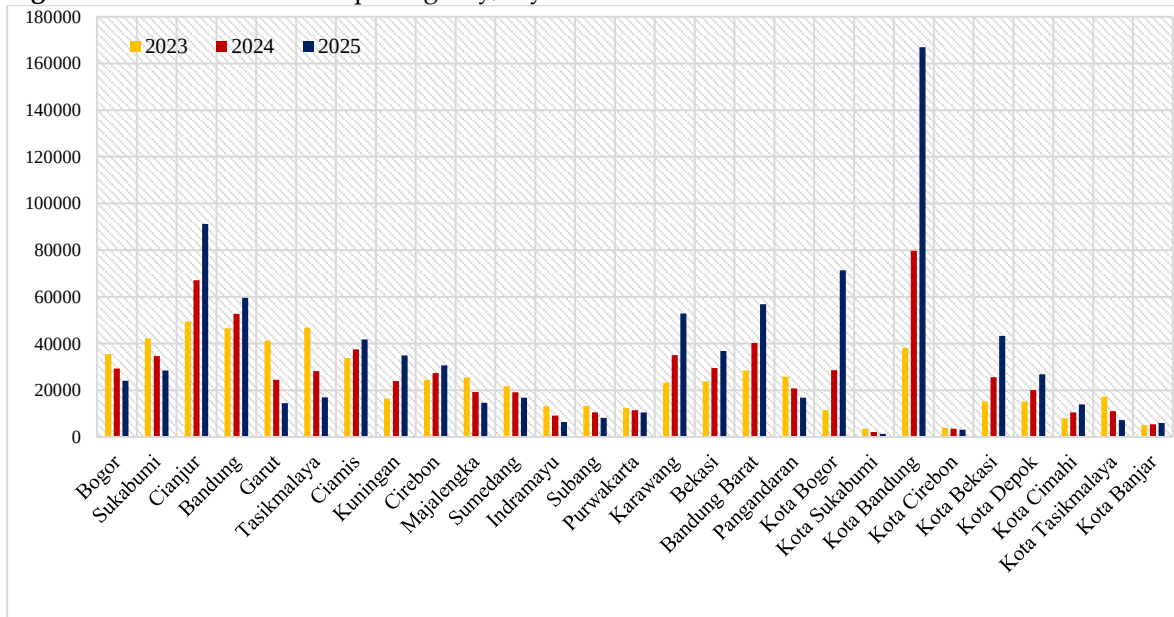
Figure 1. Number of Unemployed Persons, Number of MSMEs, and Labor Force Distribution in West Java



Source BPS 2025

The data from the Central Statistics Agency (BPS) of West Java indicate that, of the 629,597 MSME units in the province, the three largest concentrations in 2025 were located in Bandung City, Cianjur, and Bandung Regency. In the subsequent year, 2025, the three largest were found in Bandung City, followed by Cianjur and, lastly, Bogor City. However, several cities and regencies, including Bogor, Sukabumi, and Garut, experienced a decline in the number of MSMEs (Figure 2).

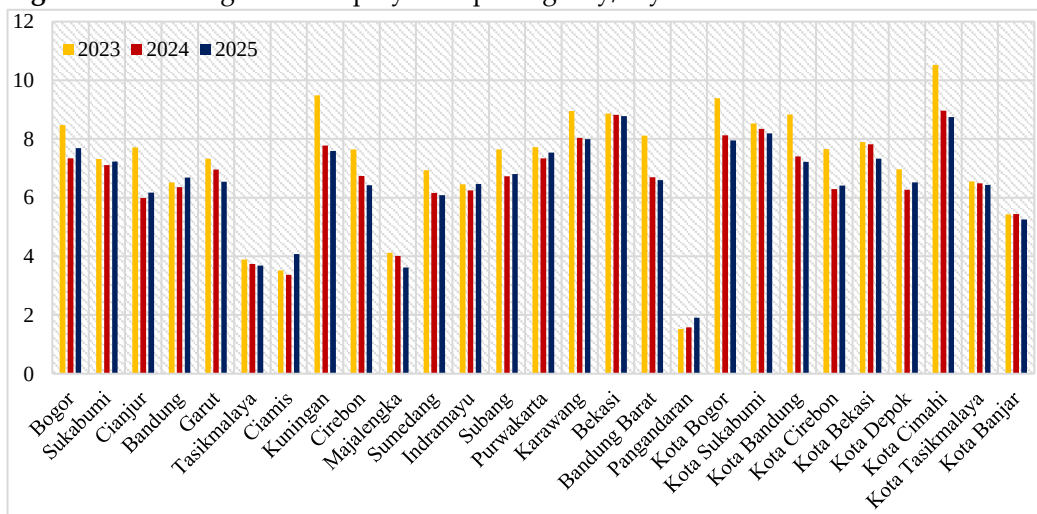
Figure 2. Number of MSMEs per regency/city



Source BPS 2025

Meanwhile, when linked to unemployment figures, it is evident that in 2023, the three highest unemployment rates were recorded in Cimahi City, Kuningan, and Bogor City. The following year, Cimahi City maintained the highest unemployment rate in West Java, followed by Bekasi and Sukabumi City. Nevertheless, BPS data also indicate that several cities and regencies, including Tasikmalaya, Majalengka, and Sumedang, experienced a decline in unemployment rates (Figure 3).

Figure 3. Percentage of unemployment per regency/city



Source BPS 2025

In practice, the West Java provincial government has supported MSME actors through a range of programs, particularly in financial matters and access to credit. One such initiative has been financial inclusion schemes, including the provision of People's Business Credit (KUR), the National Economic Recovery Program (PEN), and Ultra-Micro Interest Subsidies (SBUM) (Chand et al., 2025; Kurniawan et al., 2023). Through these programs, MSMEs have been granted facilities such as temporary deferment of principal installment payments and subsidized interest payments for a specified period, including for unbanked MSME actors. Unfortunately, government intervention through financial inclusion has not yet demonstrated a significant impact in fostering MSME development in West Java. On this basis, the present study was conducted to examine the extent to which MSMEs and financial institutions influence economic performance in West Java, and to identify the strategies required for MSME development.

2. Literature Review

2.1 SMEs as the Driving Force of Development

Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises defines micro-enterprises as productive businesses owned by individuals and/or sole proprietorships that meet the criteria of micro-enterprises (Afandi, 2023; Alam et al., 2026; Azzahra et al., 2025). Meanwhile, small enterprises are defined as independent productive economic activities conducted by individuals or business entities that are neither subsidiaries nor branches, are neither owned, controlled, nor form part, directly or indirectly, of medium or large enterprises, and meet the criteria for small enterprises. In line with these statutory definitions, MSMEs are the backbone of national economies (Esubalew & Raghurama, 2017; Latifah et al., 2021). This is not only evident in Indonesia; in India, MSMEs have successfully catalyzed industrial growth to the extent of reaching export markets (Deen, 2020; Kalwad & Kumar, 2024). Similarly, coffee-based MSMEs in Vietnam have elevated local products to become international trendsetters.

Indonesia itself also derives significant benefits from the presence of Micro, Small, and Medium Enterprises (MSMEs). First, MSMEs serve as the foundation of the national economy (Evinita et al., 2025). This is reinforced by Article 97 of the Job Creation Law, which mandates that central and regional governments allocate 40% of institutional procurement of goods and services to small enterprises. Second, Indonesia's economic base lies in its large population, and the industrial sector is unable to absorb all available labor. Consequently, a substantial proportion of the workforce is channeled into the MSME sector (Achmad, 2023). Indeed, MSMEs have twice safeguarded Indonesia during economic crises. Third, government efforts to alleviate poverty and enhance societal welfare have been facilitated by the existence of MSMEs (Wahyudi et al., 2024). These three reasons underpin the government's determination to strengthen and expand MSMEs in Indonesia.

2.2 Regional Economic Performance Indicator

Every regional development plan requires indicators that can be operationalized to measure progress within the region. Based on various approaches formulated, at least three groups of methods exist for determining the economic performance indicators of a locality: first, those based on development objectives; second, those based on resource capacity; and third, those based on development processes. Referring to the development objectives approach, high economic growth or increased production output has become the most widely used measure

of regional economic performance (Sugiharti et al., 2023). This is followed by equity of opportunity and justice in achieving a prosperous life, as well as sustainability in attaining these objectives. Ultimately, equity of opportunity and justice are often manifested in low levels of poverty and unemployment (E. Hill, 2023; H. Hill, 2021). This concept subsequently serves as a reference for local governments in formulating development policies and programs.

Output growth is commonly referred to as Gross Regional Domestic Product (GRDP), which represents the total gross value added generated by all business units or economic sectors within a region whether at the provincial, regency, or municipal level over a specific period, typically calculated annually (Adam & Alzuman, 2024). In practice, however, output growth does not necessarily guarantee the welfare of every individual in society. In certain cases, rising income accrues only to specific groups, thereby widening economic inequality. Regional income does not automatically translate into household income, which is why per capita income (GDP per capita) is often employed in data analysis. Poverty is defined as a condition in which individuals are unable to meet basic needs, such as food, clothing, housing, healthcare, and education (Halkos & Aslanidis, 2023; Rahim, 2023). Unemployment, meanwhile, refers to individuals of productive age who have not yet secured employment or are actively seeking work (H. Hill, 2021; Purwono et al., 2021). Issues of poverty and unemployment have become focal points for both central and regional governments, which address them through a range of policies and programs.

2.3 Financial Institutions: Supporters for MSMEs Funding

Financial institutions are formal entities operating in the financial sector, established by the government to mobilize funds from society and subsequently redistribute them for economic activities (Adem, 2023). In essence, financial institutions support MSME development through funding. Moreover, they function as intermediaries between parties with surplus capital and those in need of financing. Indonesia has two categories of financial institutions: banking and non-banking. Banking institutions include commercial banks, Islamic banks, and rural credit banks. Non-banking institutions encompass insurance, capital markets, pawnshops, pension funds, cooperatives, and corporate guarantee and financing bodies, which may be classified as financing institutions such as leasing companies, consumer finance firms, and venture capital enterprises (Ischak et al., 2024; Muhammad & Lubis, 2025). Since the early 2000s, the growth of non-banking financial institutions in Indonesia has advanced considerably, with increasingly diverse services in insurance, savings, investment, and credit.

In practice, the presence of financial institutions is crucial for the sustainability of MSMEs. Financial institutions, particularly non-banking ones, have demonstrably contributed to enhancing community economic growth. Nevertheless, such progress must be accompanied by continuous improvements. These improvements encompass institutional structures, organizational systems, policy frameworks, and the development of human resources

3. Methodology

This study was conducted in West Java Province, comprising nine cities and 18 regencies. To examine the influence of MSMEs and financial institutions on economic performance, the study employed secondary data from 2019 to 2025 and analyzed them using panel data regression. Panel data regression integrates cross-sectional and time-series data and offers

specific advantages, notably the ability to generate more efficient estimates due to the larger number of observations. This technique enhances degrees of freedom, reduces collinearity among variables, and addresses individual heterogeneity (Astuti et al., 2025; Hsiao, 2014; Rahim, 2023). The dependent variable in this study is regional economic performance, while the independent variables consist of MSMEs, financial institutions, and MSME capital (Table 1).

Table 1. Independent and Dependent Variables

Variable	Indicator	Unit	Description
Dependent			
Regional Economic Performance	GDP per capita (Y ₁)	Rupiah	The average community income per regency/city in West Java
	Unemployment (Y ₂)	%	The percentage of unemployed persons within a regency/city in West Java
	Poverty (Y ₃)	%	The percentage of the population living in poverty within a regency/city in West Java
Independent			
Cooperatives	The number of cooperatives (X ₁)	Unit	The number of cooperatives within a regency/city in West Java
	The number of cooperatives fund (X ₂)	Rupiah	The capital of each cooperative is to be allocated
Supporting Financial Institutions for MSMEs	The number of banks (X ₃)	Unit	The number of bank offices within a regency/city in West Java
	Number of MSMEs (X ₄)	Unit	The number of MSMEs within a regency/city in West Java
$\beta_0, \dots, \beta_n$	Constanta		
i	Locations: 9 cities, 18 regencies		
t	Time - Years of study 2019 -2025		
ε	Error		

Meanwhile, the equations employed in this research are :

1. The influence of financial institutions and MSMEs on gross regional domestic product (GDP) per capita

$$\text{LnY}_1 = \beta_0 + \beta_1 \text{LnX}_{1it} + \beta_2 \text{LnX}_{2it} + \beta_3 \text{LnX}_{3it} + \beta_4 \text{LnX}_{4it} + \varepsilon_{it} \quad (1)$$

2. The influence of financial institutions and MSMEs on unemployment rates

$$\text{LnY}_2 = \beta_0 + \beta_1 \text{LnX}_{1it} + \beta_2 \text{LnX}_{2it} + \beta_3 \text{LnX}_{3it} + \beta_4 \text{LnX}_{4it} + \varepsilon_{it} \quad (2)$$

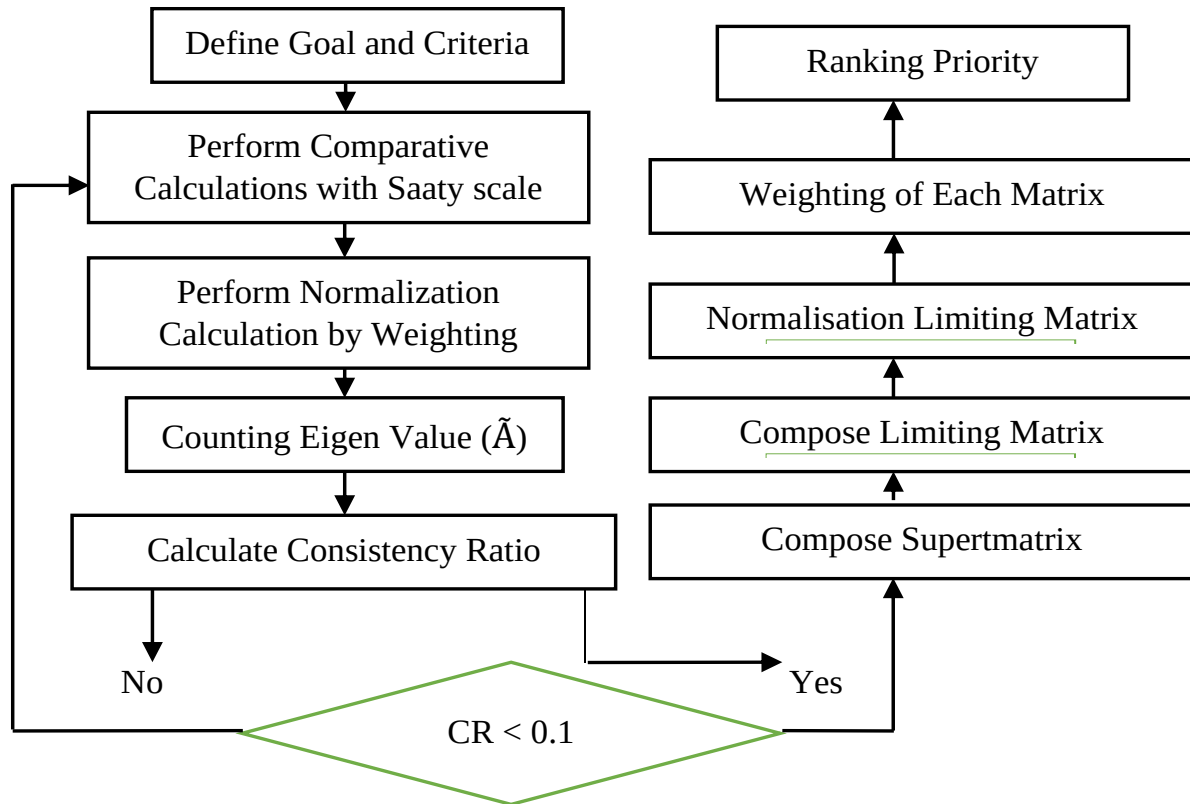
3. The influence of financial institutions and MSMEs on poverty rates

$$\text{LnY}_3 = \beta_0 + \beta_1 \text{LnX}_{1it} + \beta_2 \text{LnX}_{2it} + \beta_3 \text{LnX}_{3it} + \beta_4 \text{LnX}_{4it} + \varepsilon_{it} \quad (3)$$

To identify strategies for MSME development in West Java, the Analytical Network Process (ANP) was employed as the analytical tool. ANP is a multiple-criteria decision-making method that addresses interdependencies and provides feedback among criteria, making it particularly suitable for complex decision-making models (Gonzalez-Urango et al., 2024; Kheybari et al., 2020; Lombardi et al., 2014). The conceptual framework of the ANP model begins with defining objectives and criteria from respondents and culminates in the generation

of a supermatrix (Figure 4). As a prerequisite, respondents in the ANP analysis must be experts with a sound understanding of the issues under investigation. Accordingly, this study engaged seven respondents: three MSME practitioners in West Java, three planners and decision-makers from the West Java Government (one from the provincial level, one from Bogor City, and one from Bogor Regency), and one academician.

Figure 4. Conceptual framework of the ANP model



Within the ANP framework, the consistency ratio (CR) is used to assess respondents' consistency when answering multiple questions. The required CR value ranges from 0 to 0.1; if it exceeds this threshold, the respondent's answers are deemed unacceptable and must be reconfirmed. In addition, rater agreement serves as a measure of the degree of consensus among responses. This is indicated by Kendall's Coefficient of Concordance, which ranges between 0 and 1 (Rahim & Isnawati, 2025). The closer the value is to 1, the stronger the level of agreement among raters, thereby reflecting more reliable results (Table 2).

Table 2. Rater Agreement Interpretation

W	Interpretation
0	No agreement
0.1	Weak agreement
0.3	Moderate agreement
0.6	Strong agreement
1	Perfect agreement

4. Result and Discussion

4.1 The Influence of Financial Institutions and MSMEs on Gross Regional Domestic Product (GDP) per capita

Gross Regional Domestic Product (GDP) per capita is frequently employed as an indicator of prosperity, living standards, and the economic productivity of a population within a given region. It also serves as a key measure of regional economic development performance. The model that meets the requirements for this data analysis is the Random Effect Model (REM), as it can combine cross-sectional and time-series data without distinguishing between individuals or time periods; consequently, the appropriate estimator is Generalized Least Squares (GLS). The selection of the Random Effect Model (REM) was undertaken based on the following considerations :

1. Based on the Chow test, the p-value = 0.00, thereby satisfying the condition $p < 0.05$, which leads to the decision to use the Fixed Effect Model (FEM).
2. Based on the Hausman test, p-value = 0.984, thereby satisfying the condition $p > 0.05$. This leads to the decision that the Random Effect Model (REM) is appropriate
3. Lastly, based on the LM test, p-value = 0.01, thereby satisfying the condition $p < 0.05$, which leads to the decision that the Random Effect Model (REM) is appropriate.

The findings of this study reveal that during the period 2019–2025, cooperative capital, the number of banks, and the number of MSMEs exerted a positive and significant influence on the increase in GDP per capita in West Java. The number of cooperatives is positive but not significant. The coefficient of determination (R^2) in this study is 38.2%, indicating that the independent variables account for 38.2% of the increase in the dependent variable (Table 3).

In reality, the presence of financial institutions is vital for the sustainability of MSMEs. Financial institutions have been shown to stimulate economic growth within communities, particularly non-banking institutions. However, such progress must be accompanied by continuous improvements. These improvements encompass institutional arrangements, organizational structures, policy frameworks, and the enhancement of human resources. Several reasons explain why the number of MSMEs does not significantly influence the increase in GDP per capita. These include limited public interest in developing enterprises, low productivity, restricted capital, and household-scale operations. Although their aggregate contribution is considerable, MSMEs remain insufficiently capable of raising GDP per capita. Furthermore, MSMEs continue to face challenges in their development due to limited access to technology, inadequate digital literacy, and unsustainable profits (Isa & Aisyah, 2026). Accordingly, ecosystem support is required to enable MSMEs to integrate more effectively or, at the very least, to foster the willingness to grow.

Table 3. The influence of financial institutions and MSMEs on GDP per capita

Variable	Coefficient	Std Error	t-Statistic	Prob
C	9.891582	1.888821	5.236908	0
CoopNumb	0.08844	0.106656	0.82918	0.4081
CoopCap	0.349459	0.087627	3.988024	0.0001**
BankNumb	0.294769	0.058813	5.011983	0**
MSMEsNumb	0.25102	0.047435	5.29189	0**
R-Square	0.382749		*significant at 5 %	

Variable	Coefficient	Std Error	t-Statistic	Prob
Durbin-Watson stat	0.043458		** significant at 1 %	
Prob(F-statistic)	0			

From a policy perspective, these findings underscore the importance of boosting capital in cooperatives and the banking sector as drivers of regional economic productivity. Local governments need to devise more targeted strategies to strengthen cooperative capitalization, expand access to bank financing, and improve the quality of institutional governance. Meanwhile, although the number of cooperatives was not found to have a significant impact on GDP per capita, policies should still focus on increasing their numbers to enhance the productivity and competitiveness of MSMEs through innovation, digitalization, and integration into regional supply chains.

4.2 The Influence of Financial Institutions and MSMEs on Unemployment Rates

Unemployment arises when the number of available jobs is insufficient or does not correspond to the skills of job seekers (Juanda et al., 2023; MahaPutri & Satrianto, 2024). It is defined as a condition in which an individual actively seeks employment or transitions to a new job due to seasonal changes. Several factors contribute to unemployment, including inadequate skills among the labor force, limited employment opportunities, and low capacity to penetrate high-quality labor markets abroad. The findings of this study indicate that, during the period 2019–2025, the number of cooperatives, cooperative capital, the number of banks, and the number of MSMEs exerted a negative and significant influence on unemployment, except for the number of banks. This suggests that the number of banks does not have a significant effect on reducing unemployment levels in West Java. The coefficient of determination (R^2) is 40.7%, meaning that the independent variables explained 40.7% of the variation in the dependent variable (Table 4). Several reasons explain why the number of banks does not significantly contribute to reducing unemployment, including the limited distribution of MSME credit, despite MSMEs being the backbone of employment absorption in West Java. The relatively small increase in job opportunities also constitutes one of the factors underlying the insignificant role of banks in this study. The Fixed Effect Model (FEM) was undertaken based on the following considerations :

1. Based on the Chow test, the p-value = 0.001, thereby satisfying the condition $p < 0.05$, which leads to the decision to use the Fixed Effect Model (FEM).
2. Based on the Hausman test, p-value = 0.0005, thereby satisfying the condition $p > 0.05$. This leads to the decision that the Fixed Effect Model (FEM) is appropriate
3. Lastly, based on the LM test, p-value = 0.001, thereby satisfying the condition $p < 0.05$, which leads to the decision that the Random Effect Model (REM) is appropriate.

Table 4. The influence of financial institutions and MSMEs on unemployment rates

Variable	Coefficient	Std Error	t-Statistic	Prob
C	7.137301	1.298048	5.498489	0
CoopNumb	-0.55161	0.073297	-7.525685	0**
CoopCap	-0.25271	0.06022	-4.19642	0.0001**
BankNumb	-0.054469	0.040418	-1.347646	0.1794
MSMEsNumb	-0.27517	0.032599	-8.44125	0**
R-Square	0.407783		*significant at 5%	
Durbin-Watson stat	0.365284		** significant at 1%	
Prob(F-statistic)	0			

From a policy perspective, the findings of this study offer several significant implications. First, local governments need to increase the number of MSMEs that align with industry needs, thereby better preparing the workforce for labor market dynamics. Second, job creation policies should target productive MSME sectors with high labor-absorption potential, such as manufacturing, the creative economy, and technology-based sectors. Third, strategies for workforce internationalization involving enhanced language proficiency, professional certification, and cross-border cooperation must be developed to enable the local workforce to compete in the global market. Consequently, policies addressing unemployment should focus not only on creating new jobs but also on improving workforce quality and integrating workers into the broader labor market. This approach is expected to sustainably reduce unemployment while boosting the regional economic competitiveness of West Java.

4.3 The Influence of Financial Institutions and MSMEs on Poverty Rates

The poverty rate in West Java remains relatively high at approximately 7.08%, down from around 7.46%. Although this reflects a decline, the absolute number of poor residents remains substantial due to the province's large population. Several factors contribute to poverty in West Java, including high unemployment rates, elevated living costs, and limited access to entrepreneurial opportunities in smaller cities and regencies. Compounding these issues, widespread stunting and malnutrition further exacerbate poverty levels (Nursini, 2020; Tambunan, 2020). The findings of this study demonstrate that the number of cooperatives, cooperative capital, and the number of MSMEs exert a negative and significant influence on poverty reduction, whereas the number of banks does not. The coefficient of determination (R^2) is 72.3 %, meaning that the independent variables explained 72.3 % of the variation in the dependent variable (Table 5). The Fixed Effect Model (FEM) was undertaken based on the following considerations :

1. Based on the Chow test, the p-value = 0.001, thereby satisfying the condition $p < 0.05$, which leads to the decision to use the Fixed Effect Model (FEM).
2. Based on the Hausman test, p-value = 0.0001, thereby satisfying the condition $p > 0.05$. This leads to the decision that the Fixed Effect Model (FEM) is appropriate
3. Lastly, based on the LM test, p-value = 0.001, thereby satisfying the condition $p < 0.05$, which leads to the decision that the Random Effect Model (REM) is appropriate.

Table 5. The influence of financial institutions and MSMEs poverty

Variable	Coefficient	Std Error	t-Statistic	Prob
C	18.77859	1.97546	9.505932	0
CoopNumb	-1.362657	0.111548	-12.21583	0**
CoopCap	-0.7407	0.091647	-8.08217	0**
BankNumb	-0.03917	0.061511	-0.63676	0.5251
MSMEsNumb	-0.243454	0.049611	-4.907262	0**
R-Square	0.723568		*significant at 5%	
Durbin-Watson stat	0.03776		** significant at 1%	
Prob(F-statistic)	0			

From a policy perspective, this study underscores that the scale and capital of cooperatives and MSMEs serve as vital instruments for expanding employment opportunities, boosting public income, and strengthening the local economic base, thereby ultimately reducing unemployment. Conversely, the banking sector's role in alleviating poverty remains limited,

primarily due to the poor access to productive credit faced by the impoverished and small businesses. Ultimately, it is evident that reducing unemployment in West Java requires a multisectoral approach that integrates economic, social, and health dimensions. Poverty alleviation policies cannot focus solely on increasing income; rather, they must encompass comprehensive strategies to improve the quality of life for the poor.

4.4 Development Strategy for MSMEs in West Java

The strategy for developing MSMEs in West Java aims to enhance the region's economic performance. This objective is measured through three indicators, with the highest score indicating the most critical strategy to prioritize. The indicators are: increasing regional GDP per capita through MSMEs (0.52 points), reducing poverty levels (0.27 points), and reducing unemployment rates (0.21 points). Meanwhile, in terms of strategic criteria, four indicators are considered significant: first, strengthening the institutional capacity of MSMEs (0.37 points); second, optimizing the role of financial institutions (0.28 points); third, optimizing the role of cooperatives (0.24 points); and fourth, enhancing the human resource capacity of MSME actors (0.11 points).

Meanwhile, the MSME development strategy also comprises sub-criteria, each with its own sequence of indicators. The highest ranking denotes the priority for program implementation. The first sub-criterion is the enhancement of MSME capacity, with the following strategic order: first, local economic empowerment (0.30 points); second, supervision of MSME actors towards international markets (0.28 points); third, support through regional regulations (0.17 points); fourth, supervision of MSME existence (0.13 points); and fifth, synergy among MSMEs across regencies/cities (0.11 points).

The second sub-criterion is the optimisation of the role of financial institutions, with the first indicator being the provision of financial support for MSME actors (0.40 points); the second, improving MSME actors' access to financial institutions (0.25 points); the third, increasing the number of financial institutions supporting MSMEs (0.19 points); and finally, financial inclusion for MSME actors (0.15 points). The fourth sub-criterion is the optimization of the role of cooperatives, comprising three sequential indicators. The first strategy is the revitalization of cooperatives' role for MSMEs (0.39 points); the second, positioning cooperatives as the backbone of the MSME economy (0.31 points); and the third, enhancing professionalism in cooperative management (0.30 points).

Lastly, the MSME development strategy in West Java is the enhancement of human resources among MSME actors. The strategic sequence is as follows: first, creating employment opportunities in the MSME sector (0.40 points); second, providing training and education for MSME actors in digital trade (0.34 points); and third, empowering MSME human resources (0.26 points). For the overall development strategy, the ANP analytical model prioritizes, first, the establishment of a specialized government supervisory institution for MSMEs (0.64 points) and, second, an action plan to strengthen financial inclusion (0.36 points) (Table 6).

Table 6. Development strategy for MSMEs in West Java

Goals – Criteria Sub-Criteria - Strategy		Indicator	Point
Goals	Enhancing the Economic Performance of West Java	Increase in per capita GDP through MSMEs	0.52
		Decrease in poverty rate	0.27
		Reduction in the number of unemployed	0.21
Strategic Criterias		Strengthening the institutional capacity of MSMEs	0.37
		Optimization of the role of financial institutions	0.28
		Optimization of the role of cooperatives	0.24
		Enhancement of human resource capacity among MSME actors	0.11
Sub Criterias	Strengthening the Institutional Capacity of MSMEs	Local economic empowerment (LEE)	0.30
		Supervision of MSME actors towards international markets	0.28
		Support through regional regulations	0.17
		Supervision of MSME existence	0.13
		Synergy among MSMEs across regencies/cities	0.11
	Optimization of the Role of Financial Institutions	Financial support for MSME actors	0.40
		Enhancing MSME actors' access to financial institutions	0.25
		Increasing the number of financial institutions supporting MSMEs	0.19
		Financial inclusion for MSME actors	0.15
	Optimization of the Role of Cooperatives	Revitalization of the role of cooperatives for MSMEs	0.39
		Cooperatives as the pillars of the MSME economy	0.31
		Professionalism in cooperative management	0.30
	Enhancing the human resource capacity of MSME actors	Creating employment opportunities in the MSME sector	0.40
		Training and education of MSME actors in digital trade	0.34
		Empowerment of human resources among MSME actors	0.26
MSME Development Strategies		Establishment of a special supervisory institution for MSMEs by the government	0.64
		Action plan for strengthening financial inclusion	0.36

In this study, rater agreement met the required standards, with the Consistency Ratio (CR) ranging from 0.002 to 0.09. Furthermore, Kendall's Coefficient of Concordance was 0.679, indicating strong consensus among experts regarding the formulated strategies (Table 7).

Table 7. Rater agreement response results

Respondent	CR	W	Interpretation
Expert 1	0.02 – 0.09		
Expert 2	0.03 – 0.08		
Expert 3	0.02 – 0.08		
Expert 4	0.04 – 0.09		
Expert 5	0.02 = 0.09	0.679	Strong agreement
Expert 6	0.01 – 0.08		
Expert 7	0.02– 0.09		

5. Conclusion and Suggestion

MSMEs have long been recognized as the backbone of Indonesia's economy, as evidenced by the 1998 financial crisis and the COVID-19 pandemic, when they demonstrated resilience amid severe economic challenges. Ultimately, MSMEs are acknowledged as the pillars of the national economy, serving not only as instruments of economic redistribution but also as mechanisms for poverty alleviation. West Java, as one of Indonesia's provinces, illustrates a distinctive developmental dynamic. Although the number of MSMEs declined by approximately 0.5% annually during the period 2019-2025, and the unemployment rate decreased by 2.8%, the number of workers increased sharply over the same period. This indicates that, despite a slight reduction in the number of MSMEs, their contribution to employment absorption and to reducing unemployment remains substantial.

The findings of this study reveal that, among the four independent variables examined, the number of cooperatives, cooperative capital, and the number of banks in West Java positively influence regional GRDP per capita, whereas the number of MSMEs does not demonstrate a significant effect. This outcome is largely attributable to MSMEs' relatively low productivity, which limits their capacity to directly affect GDP per capita. Conversely, the number of cooperatives, cooperative capital, and the number of MSMEs were found to have a negative, statistically significant effect on unemployment levels in West Java, whereas the number of banks did not exhibit a meaningful influence. This condition reinforces the thesis that cooperatives and MSMEs play a crucial role in expanding employment opportunities and reducing unemployment, whereas the banking sector remains constrained by limited credit to MSMEs. Finally, the number of cooperatives, cooperative capital, and the number of MSMEs were found to have a negative and significant effect on poverty reduction in West Java, whereas the number of banks did not have a notable impact. This finding underscores that strengthening cooperatives and MSMEs is more effective at alleviating poverty than relying on banks.

For the development strategy of Micro, Small, and Medium Enterprises (MSMEs), the analysis results using the ANP method aim to improve the regional economic performance through MSMEs. Therefore, the first strategy to be implemented is increasing per capita Gross Regional Domestic Product (GDP), the second is reducing the poverty rate, and the last is decreasing the unemployment rate. These objectives are achieved through four criteria: first, strengthening MSMEs' institutional capacity. This criterion has sub-criteria, including local economic empowerment, MSME actors' supervision towards international markets, regional regulatory support, and MSME existence supervision. The second criterion is optimizing the role of financial institutions, with sub-criteria including supporting MSME financing, increasing MSME access to financial institutions, increasing the number of financial

institutions supporting MSMEs, and promoting financial inclusion for MSMEs. The third criterion is optimizing the role of cooperatives. This criterion has sub-criteria, including revitalizing the role of cooperatives for MSMEs, making cooperatives the backbone of the MSME economy, and professionalizing their management. The fourth and final criterion is increasing the capacity of MSME actors' human resources (HR). Sub-criteria for increasing HR capacity include creating job opportunities in the MSME sector, providing training and education for MSME actors in digital trade, and empowering MSME human resources. To achieve these objectives, there are two main strategies: establishing a dedicated government agency to oversee MSMEs and developing an action plan to strengthen financial inclusion. The raters' agreement in this analysis is 0.679, indicating that all respondents agree on the strategies produced (strong agreement).

6. Limitations and Future Research

This study is limited by its reliance on secondary data as the basis for analyzing MSME performance. Consequently, the study could not delve deeply into the actual conditions and internal characteristics of MSMEs such as business owners' perceptions, decision-making processes, and factors directly influencing business performance. Furthermore, the limited indicators available in secondary data constrained the study's ability to provide a comprehensive representation of MSME performance.

Future research is encouraged to utilize primary data obtained directly from MSME owners through questionnaires, interviews, or other data collection methods. The use of primary data would enable researchers to develop more specific variables and indicators for measuring MSME business performance, such as revenue growth, profit increases, customer growth, market expansion, and business sustainability. Thus, future studies are expected to enrich, strengthen, and provide a more comprehensive understanding of the factors influencing MSME performance.

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