

Effect of the Growth of MSMEs and Cooperatives Through Policies on the People's Economy

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ABSTRACT

This study aims to analyze the influence of the growth of Micro, Small, and Medium Enterprises (MSMEs) and cooperatives through public credit policies on the success of the people's economy. The background of this study is based on the strategic role of MSMEs and cooperatives in strengthening the national economy, but the effectiveness of public policy as a supporting factor still requires further study. The research method used is a quantitative method with a path analysis approach to examine the direct and indirect influences between variables. Data were obtained through a survey of MSME and cooperative actors who were the objects of the study. The results show that MSME growth has a significant direct influence on the success of the people's economy, while the indirect influence through public policy (credit) is insignificant. Meanwhile, cooperatives, either directly or through public policy, do not have a significant influence on the people's economy. These findings indicate that the success of the people's economy is still supported more by the growth of MSMEs than by cooperatives or government credit policies. In the future, similar research can expand its scope by including non-credit policy variables and a qualitative approach to provide a more comprehensive picture of the dynamics of the people's economy in Indonesia.

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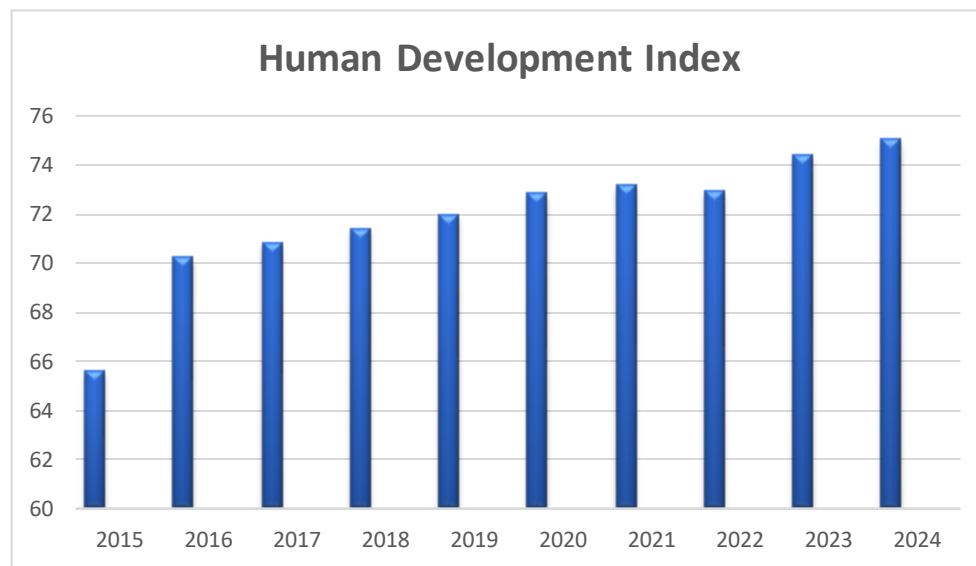
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1. Introduction

Economic development is an important foundation in creating social welfare and increasing a country's competitiveness (Edison and Andriansyah, 2023). In the midst of increasingly complex globalization and economic dynamics, developing countries like Indonesia are faced with the challenge of realizing economic growth that is not only high, but also inclusive and equitable (Prasetyo et al., 2025). In this context, a people's economic system is a strategic approach that positions the people as the primary actors in economic activity, with the goal of creating income equality, economic independence, and social justice. Therefore, the concept of a people's economy cannot be separated from the concept of people's welfare.

Both concepts are explicitly and implicitly contained in Article 33 of the 1945 Constitution (Hosein, 2016). The article states that the economy is structured as a joint venture based on the principle of kinship and controlled by the state for the greatest prosperity of the people. This demonstrates the state's responsibility for regulating and managing the economy for the benefit of the people, not solely for the benefit of certain individuals or groups. The people-centered and solidarity economy (EPS) emerged as an alternative approach to poverty that aligns with the principles of sustainable development (Gomez-Ceballos et al., 2021). The goal of a people-centered economy is to create an equitable distribution of economic resources and reduce socio-economic inequality in society. This system includes empowering micro and small sectors, providing greater access to capital for the community, and increasing their participation in the economy.

A people's economy must be based on the human development index (HDI) (Mubyarto, 2014). A people's economy is everything related to improving people's welfare. The success of a people's economy can be measured by the level of well-being experienced by its people, as measured by the human development index. The HDI is formed by three basic dimensions: longevity and health, knowledge, and a decent standard of living (Lamaile, 2022).



Source: BPS Indonesia 2024

Figure 1. Human Development Index 2015-2024

A consistent upward trend is evident from 2015 to 2024. This means that the quality of human development in Indonesia continues to improve year after year. From 2015–2017, the Human Development Index (HDI) experienced a significant increase from around 65 to 70, indicating progress in education, health, and the community's standard of living. In the mid-2018–2021 period, HDI growth continued to increase but tended to slow, indicating that improvements in the community's quality of life were beginning to stabilize. In the final period of 2022–2024, the HDI reached around 75–76, indicating a high level of achievement. This increase demonstrates that human development policies are effective, particularly in the areas of health, education, and the people's economy. Another factor that enables the

improvement of human resources as agents of development is related to the fulfillment of basic needs (Putri and Susilowati, 2024). The increase in the HDI is closely linked to the strengthening of the people's economy. This means that when a people-based economy grows (through MSMEs, cooperatives, and equitable distribution of welfare), the HDI indicator will also improve.

One of the important pillars of the people's economy is the existence of Micro, Small, and Medium Enterprises (MSMEs) and cooperatives (Kader, 2018). These two sectors play a significant role in supporting the national economy because they are able to absorb a large workforce, encourage local creativity, and strengthen the domestic economic structure from the grassroots level. Data from the Ministry of Cooperatives and SMEs shows that MSMEs contribute more than 60% to the national Gross Domestic Product (GDP) and absorb more than 90% of the workforce in Indonesia (Melati et al., 2022). This demonstrates that MSMEs and cooperatives are not only economic entities but also real representations of the people's economy based on people's independence. Indonesian society has begun to increase their knowledge of cooperative capital, which can influence the growth of cooperatives in Indonesia. The development of cooperatives in Indonesia to date is still influenced by the economic system used (Halilintar, 2018).

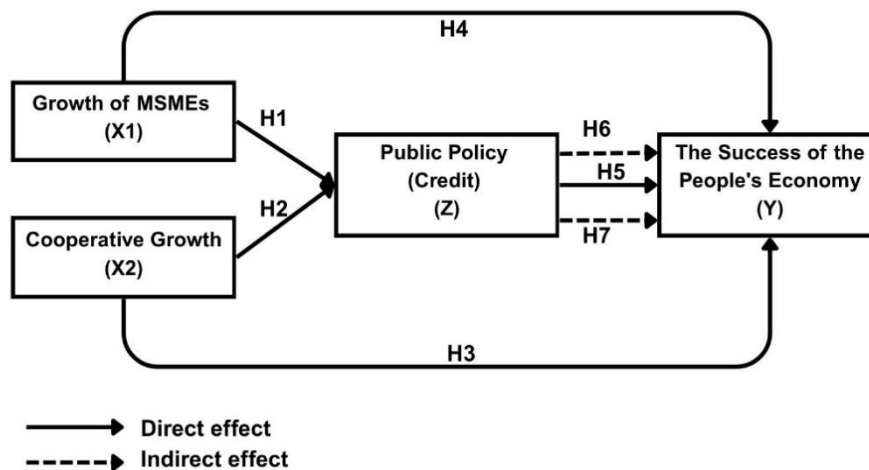
However, the growth of MSMEs and cooperatives is inseparable from public policy support. The government plays a strategic role in creating a conducive business environment by providing subsidies and easily accessible credit facilities. Public policy in the form of the People's Business Credit (KUR) program is expected to strengthen the competitiveness of small businesses, reduce economic inequality, and improve people's living standards. However, the effectiveness of this policy remains a matter of debate because not all credit programs are distributed effectively and have not fully encouraged increased productivity of MSMEs and cooperatives. The KUR (People's Business Credit) program began intensively in 2015, but saw a significant increase after the pandemic from 2020 to 2024 (Nansi, Yusuf and Mustofa, 2024).

Several previous studies have shown that public financing policies have a positive impact on the growth of MSMEs ((Natasya and Hardiningsih, 2021);(Pradnyani and Yuniarta, 2024)). Government loans are considered effective only for MSMEs when other government and private support mechanisms are implemented (Crawford, Cui and Kewley, 2024). If MSME growth increases, then theoretically the government or public institutions will be more encouraged to formulate supportive credit policies (Suwaji and Harsono, 2024). MSME performance cannot improve the economic growth of MSMEs in Pariaman City, while KUR has an impact on improving the economic growth of MSMEs (Syahril, 2021). However, most studies only examine sectoral aspects, such as the effectiveness of specific KUR programs, without directly linking them to the comprehensive success of the people's economy. In other words, there remains a research gap in understanding how public policies, through subsidies and credit, can strengthen the relationship between the growth of MSMEs, cooperatives, and the sustainable success of the people's economy.

Against this backdrop, this study focuses on analyzing the influence of MSME and cooperative growth through public policy (credit) on the success of the people's economy. This research is expected to provide theoretical contributions by broadening understanding of the relationship between public policy and the people's economy, as well as providing practical contributions in the form of policy recommendations for the government in designing more effective and socially just strategies. The novelty of this research lies in its integrative approach, which views MSMEs and cooperatives not only as economic entities but also as key driving instruments in realizing an independent, inclusive, and sustainable people's economy.

2. Research Methodology

The type of research used is quantitative, using path analysis techniques. This approach is used to determine the direct and indirect influence of the growth of MSMEs and cooperatives on the success of the people's economy through public policy (credit) as a mediating variable. The research includes the collection and analysis of secondary data during the period 2015–2024, a period during which public policy related to credit for MSMEs increased significantly due to the National Economic Recovery (PEN) program after the COVID-19 pandemic. The secondary data sources are from the Statistics Indonesia (BPS), the Ministry of Cooperatives and SMEs, Bank Indonesia, and the Ministry of Finance. Data analysis used classical assumption tests, path analysis, t-tests, and coefficient of determination tests. The following is the conceptual framework of the path analysis model.



Source: Data processed by the author (2025)

Figure 2. conceptual framework of path analysis model

The research hypotheses are:

H1: The growth of MSMEs has a positive effect on public policy (credit).

H2: The growth of cooperatives has a positive effect on public policy (credit).

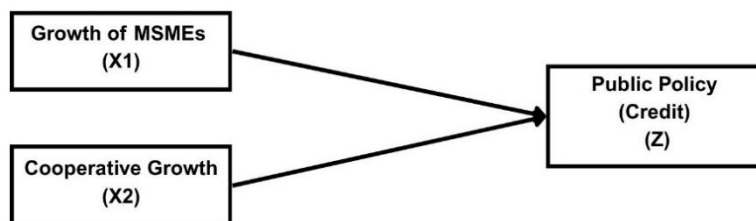
H3: The growth of MSMEs has a positive effect on the success of the people's economy.

H4: The growth of cooperatives has a positive effect on the success of the people's economy.

H5: Public policy (credit) has a positive effect on the success of the people's economy.

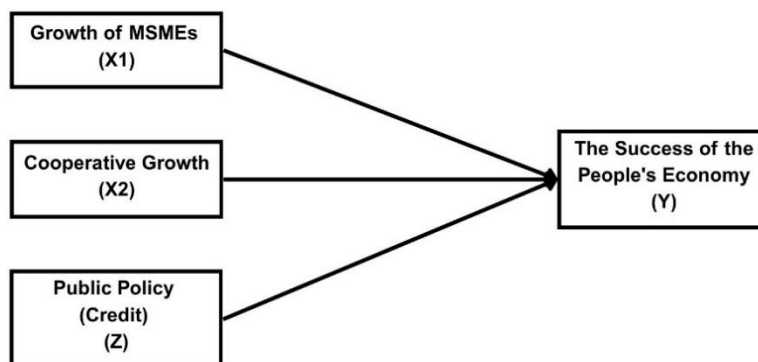
H6: The growth of MSMEs has an indirect effect on the success of the people's economy through public policy.

H7: The growth of MSMEs has an indirect effect on the success of the people's economy through public policy.



Source: Data Processed by the Author (2025)

Figure 3. model I conceptual framework



Source: Data processed by the author (2025)

Figure 4. Model II Conceptual Framework

3. Result and Discussion

Classical Assumption Test Results

Normality Test

Tabel 1. Normality Test Results of Model I

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		10
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	66,88081905
Most Extreme Differences	Absolute	,211
	Positive	,211
	Negative	-,129

Test Statistic	,211
Asymp. Sig. (2-tailed)	,200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: Data processed by SPSS (2025)

Tabel 2. Normality Test Results of Model II
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		10
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,81789057
Most Extreme Differences	Absolute	,213
	Positive	,154
	Negative	-,213
Test Statistic		,213
Asymp. Sig. (2-tailed)		,200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction

d. This is a lower bound of the true significance.

Source: Data processed by SPSS (2025)

Based on tables 1 and 2, the results of the Kolmogorov-Smirnov test for models I and II are presented. The graph shows a Kolmogorov-Smirnov value of 0.200, indicating a significance value greater than 0.05. Therefore, the data can be said to be normally distributed.

Uji Multikolinearitas

Tabel 3. Multicollinearity Test Results of Model I Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
1 Pertumbuhan UMKM	,380	2,629

Koperasi ,380 2,629

a. Dependent Variable: Public Policy

Source: Data processed by SPSS (2025)

Tabel 4. Multicollinearity Test Results of Model II Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
1 Pertumbuhan UMKM	,246	4,068
Koperasi	,380	2,624
Kebijakan Publik	,432	2,316

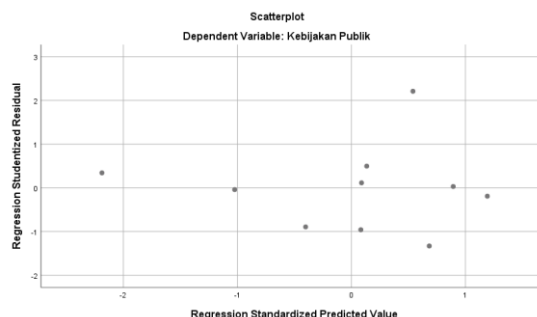
a. Dependent Variable: The Success of the People's Economy

Source: Data processed by SPSS (2025)

Based on the test results in Table 3 using SPSS, it is clear that the tolerance value for variables X1 and X2 is 0.380, indicating that the tolerance value is >0.10 . Furthermore, the VIF value for variables X1 and X2 is 2.629, <10.00 . Therefore, the multicollinearity test for Model I in this study concludes that it is free from the classical assumptions, indicating that there are no symptoms of multicollinearity.

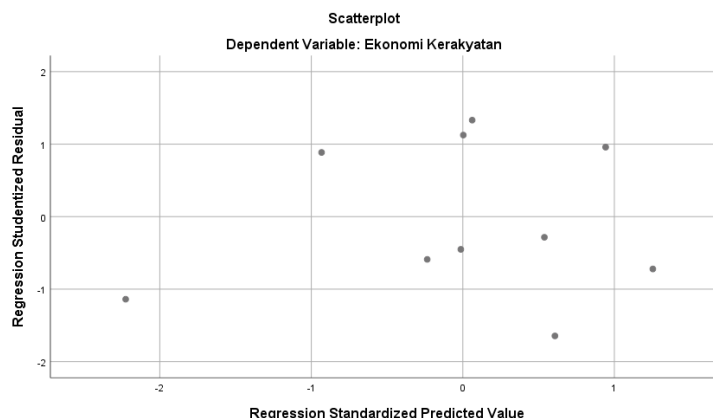
Based on the test results in Table 4, the tolerance value for variable X1 is 0.246, for variable X2 is 0.380, and for variable Z is 0.432, indicating that the tolerance value is >0.10 . Furthermore, the VIF value for variable X1 is 4.068, for variable X2 is 2.624, and for variable Z is 2.316 <10.00 . Therefore, the multicollinearity test in model II in this study concluded that it was free from classical assumptions or that there were no symptoms of multicollinearity.

Heteroscedasticity Test



Source: Data Processed by SPSS (2025)

Figure 5. Heteroscedasticity Test Results of Model I



Source: Data processed by SPSS (2025)

Figure 6. Heteroscedasticity Test Results of Model II

Based on Figures 1 and 2, the scatterplot graphs show that the points are spread out and there is no pattern in either the graphs in models I and II. Therefore, it is stated that there is no heteroscedasticity.

Uji t

Tabel 5. Results of Model I t-Test Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1						
(Constant)	-2257,819	1624,844			-1,390	,207
Growth of MSMEs	3,723E-5	,000	,788		1,957	,091
Cooperative	,000	,004	,044		,110	,915

a. Dependent Variable: Public Policy

Source: Data processed by SPSS (2025)

Based on table 5. Regarding the results of the t-test, it shows that variable X1, namely the growth of MSMEs, does not have a significant effect on public policy but is positive (H1). This result is known based on the calculated t probability value which is more than the significant value ($0.091 > 0.05$). And the comparison of the t-table value with the t-table value formula with the formula $a/2$ ($0.05/2 = 0.025$) $dk = n-k-1$ ($10-2-1=7$) so the t-table value is 2.364 and the calculated t-value is 1.957. Variable X2, namely Cooperatives, does not have an effect on public policy but is positive (H2). This result is known based on the calculated t probability value which is greater than the significant value ($0.915 > 0.05$). And the comparison of the t-table value with the t-table value formula with the formula $a/2$ ($0.05/2 = 0.025$) $dk = n-k-1$ ($10-2-1=7$) so the t-table value is 2.364 and the calculated t value is 0.110.

Tabel 6. Results of Model II t-Test Coefficients^a

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-20,374	21,101		-,966	,366
	Growth of MSMEs	1,185E-6	,000	,957	3,792	,009
	Cooperative	4,295E-5	,000	,184	,906	,400
	Public Policy	,004	,005	,167	,876	,415

a. Dependent Variable: The Success of the People's Economy

Source: Data processed by SPSS (2025)

Based on table 6. Regarding the results of the t-test, it shows that variable X1, namely the growth of MSMEs, has a significant and positive effect on the success of the people's economy (H3). This result is known based on the calculated t-probability value which is more than the significant value ($0.009 < 0.05$). And the comparison of the t-table value with the formula $t\text{-table value with the formula } \alpha / 2$ ($0.05 / 2 = 0.025$) $dk = n - k - 1$ ($10 - 2 - 1 = 7$) so the t-table value is 2.364 and the calculated t-value is 3.792. Variable X2, namely Cooperatives, has no effect on the success of the people's economy but is positive (H4). This result is known based on the calculated t-probability value which is greater than the significant value ($0.400 > 0.05$). And the comparison of the t-table value with the formula $t\text{-table value with the formula } \alpha / 2$ ($0.05 / 2 = 0.025$) $dk = n - k - 1$ ($10 - 2 - 1 = 7$) so the t-table value is 2.364 and the calculated t value is 0.906. The variable Z, namely public policy, has no effect on the success of the people's economy but is positive (H5). This result is known based on the probability value of the calculated t greater than the significant value ($0.415 > 0.05$). And the comparison of the t-table value with the formula $t\text{-table value with the formula } \alpha / 2$ ($0.05 / 2 = 0.025$) $dk = n - k - 1$ ($10 - 2 - 1 = 7$) so the t-table value is 2.364 and the calculated t value is 0.415.

Uji Koefisien Determinan

Tabel 7. Results of the Determinant Coefficient Test for Model I

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,754 ^a	,568	,445	75,83572

a. Predictors: (Constant), Cooperative, Growth of MSMEs

b. Dependent Variable: Public Policy

Source: Data processed by SPSS (2025)

Tabel 8. Results of the Determinant Coefficient Test for Model II

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,952 ^a	,906	,859	1,00171

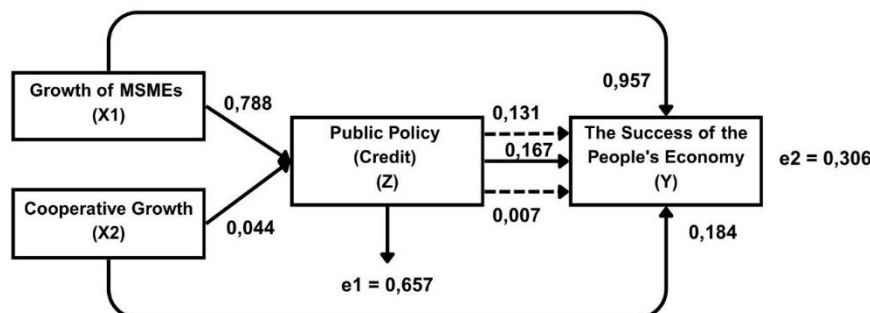
a. Predictors: (Constant), Public Policy, Cooperative, Growth of MSMEs

b. Dependent Variable: The Success of the People's Economy

Source: Data processed by SPSS (2025)

Based on the coefficient test in Table 7, the percentage value of the influence of the independent variable (X) on the dependent variable (Z) is 56% because the Adjusted R Square value is 0.568. Meanwhile, the remaining 44% is influenced by other variables not studied. In Table 8, the percentage value of the influence of the independent variable (X) and the intervening variable (Z) on the dependent variable (Y) is 90% because the Adjusted R Square value is 0.906. Meanwhile, the remaining 10% is influenced by other variables not studied.

Path Analysis Test



Source: Data processed by the author (2025)

Figure 7. Path Analysis Results

Based on Figure 3, it is known that the direct influence given by X1 on Y is 0.957. While the indirect influence of X1 through Z on Y is the multiplication of the beta value of X1 on Z with the beta value of Z on Y, namely: $0.788 \times 0.167 = 0.131$. Then the total influence given by X1 on Y is the direct influence plus the indirect influence, namely: $0.957 + 0.131 = 1.088$. Based on the results of the calculations above, it is known that the direct influence value is 0.957 and the indirect influence is 0.131, which means that the direct influence value is greater than the indirect influence value, this result shows that indirectly X1 through Z does not have a significant effect on Y. On the variable X2, the direct influence on Y is 0.184. While the indirect influence of X2 through Z on Y is the multiplication of the beta value of X2 on Z with the beta value of Z on Y, namely: $0.044 \times 0.167 = 0.007$. So the total influence given by X1 on Y is the direct influence plus the indirect influence, namely: $0.184 + 0.007 = 0.191$. Based on the calculation results above, it is known that the value of the direct influence is 0.184 and the indirect influence is 0.007, which means that the value of the direct

influence is greater than the value of the indirect influence. These results indicate that indirectly X2 through Z does not have a significant effect on Y.

The Impact of MSME Growth on Public Policy (Credit)

MSME growth shows a positive relationship with public policy (credit). This means that as the MSME sector develops, public credit policies generally tend to increase to support this growth. However, this influence is not yet significant, possibly due to other factors such as limited access to financing, suboptimal regulations, or government policies that are not fully pro-MSME.

Based on the literature, if MSME growth increases, then theoretically the government or public institutions will be more encouraged to formulate supportive credit policies (e.g., credit guarantee schemes, interest subsidies, and easy access to financing) so that the sector can continue to grow. For example, the study "The Impact of Government Policy, Financial Literacy, Market Access, and Innovation on the Growth of MSMEs in Indonesia" shows that government policies have a positive influence on MSME growth (Suwaji, R., & Harsono, I. 2024). Relevant research also states that MSME growth has a positive influence on public policy (credit) (Natasya, V., & Hardiningsih, P. 2021; Pradnyani, I. et al., 2024). The MSME sector has the potential to be a driver of public credit policy, but currently, these policies may not be fully responsive or "capture" MSME growth. To strengthen the relationship and make it significant, the government can consider designing more specific policy schemes for MSMEs (e.g., credit guarantees, financial literacy training, government-MSME partnership programs).

The Influence of Cooperatives on Public Policy (Credit)

The cooperative variable shows a very small and insignificant influence on public policy (credit). This indicates that the role of cooperatives in driving change or implementing public policy related to credit remains weak. It is possible that cooperatives have not been a primary focus in public policy or their contribution to the financing system has not been optimal.

Cooperatives theoretically have the potential to contribute to public credit policy, but in the specific context of this study, this influence has not been proven. Therefore, public policy may need to re-examine how cooperatives are empowered or involved in public credit schemes. Improvements in cooperative capacity, connectivity with financial institutions, and more pro-cooperative policies are needed to realize the role of cooperatives in credit policy.

The Influence of MSME Growth on the Success of the People's Economy

The results of the study indicate that the MSME Growth variable has a positive coefficient value of 1.185E-6, with a t-value of 3.792 and a significance level of 0.009. Because the significance value is less than 0.05, it can be concluded that MSME Growth has a positive and significant effect on the success of the people's economy. This means that the higher the MSME growth rate, the greater the success of the people's economy in general.

Any increase in MSME growth will significantly increase the success of the people's economy. This indicates that government policies that support MSME expansion, for

example through entrepreneurship training and digitalization, can strengthen the structure of a people-based economy. This research is inconsistent with research by Syahril (2021). MSME growth is a key variable in strengthening the people's economy. Through increased production, employment, and local innovation, MSMEs play a role in building the foundation of an inclusive and equitable economy.

The Influence of Cooperative Growth on the Success of the People's Economy

The Cooperative variable shows a t-value of 0.906 with a significance value of $0.400 > 0.05$, which means it has no significant effect on the success of the people's economy. According to Hatta's (1957) people's economic theory, cooperatives ideally serve as a tool for the people's economic struggle based on mutual cooperation. However, in modern practice, this idealism is often hampered by limited efficiency and human resource capacity. The role of cooperatives in Indonesia is often suboptimal due to weak governance and financial transparency (Suharto et al., 2021).

Although cooperatives have significant potential as a people's economic institution, their actual role in improving the community's economy remains weak. Structural reforms in the management and modernization of cooperatives are needed to re-establish them as a vital instrument in strengthening the people's economy.

The Influence of Public Policy (Credit) on the Success of the People's Economy

The Credit variable has a positive coefficient value of 0.004, with a t-test of 0.876 and a significance level of 0.415. A significance value far above 0.05 indicates that Credit does not significantly influence the Success of the People's Economy. In theory, the relationship between credit and economic growth was explained by Gurley and Shaw (1960) through Financial Intermediation Theory, which states that credit functions as a primary instrument to facilitate the flow of funds from surplus parties (savers) to deficit parties (investors). If credit is channeled effectively to the productive sector, it will encourage investment, job creation, and ultimately economic success. However, the results of this study indicate that credit distribution in the research area may not be fully on target. This is supported by studies that productive credit in Indonesia often does not have a significant impact on economic growth because it is mostly used for consumption, not for productive activities (Syahputra and Ningsih, 2020). Despite increasing access to credit, its impact on economic success in developing countries is often hampered by bureaucracy, delays in disbursement, and low financial literacy among loan recipients. Therefore, the effectiveness of public credit policies still needs to be improved through more selective distribution mechanisms based on productive needs.

The Influence of MSME Growth on the Success of the People's Economy Through Public Policy

The analysis shows that the growth of MSMEs has a significant direct impact on the success of the people's economy, but the indirect impact through public policy (credit) is insignificant. This suggests that although public policy in the form of credit facilities is provided to support MSME development, its effectiveness in improving the people's

economic success is not optimal. In the context of a people's economy, credit should act as a public policy instrument that encourages the productivity of the MSME sector. However, the research results indicate that credit distribution has not been able to effectively bridge the relationship between MSME growth and the economic success of the community. The significance value of the credit variable, which is greater than 0.05, indicates that this financing policy has not had a significant impact on improving the welfare of the people at large. Several factors can explain this phenomenon. First, accessibility to formal credit remains a major obstacle for most MSMEs. Many small business owners lack the collateral or administrative eligibility to obtain loans from formal financial institutions. This finding aligns with research by Beck, Demirgüç-Kunt, and Levine (2004), which states that access to formal financing in developing countries is often limited for small businesses, resulting in an insignificant economic impact of credit.

Second, although credit has been disbursed, its use has not been fully directed towards productive activities. Some MSMEs still use credit funds for consumption or to pay off existing debts, rather than for business expansion. This results in credit not having a multiplier effect on the people's economy. The effectiveness of the People's Business Credit (KUR) program remains low due to weak supervision and minimal financial literacy among MSMEs (Aristanto et al., 2022). Third, the implementation of public policies in the form of financing programs remains general and does not specifically address the real needs of the MSME sector. In some cases, credit policies emphasize the distribution of funds rather than coaching and mentoring. The success of MSME development is determined not only by the availability of capital, but also by managerial capabilities, innovation, and institutional support (Tambunan, 2019).

Thus, it can be concluded that credit as a form of public policy has not been effective as a mediating variable between MSME growth and the success of the people's economy. Although MSME growth can directly drive economic growth, when it is channeled through public policy (credit), its influence is insignificant. Theoretically, this finding indicates that the theory of financial intermediation, which states that public financing can strengthen productive economic activity, has not been fully realized in the context of MSMEs in Indonesia. Therefore, a reorientation of public credit policy is necessary to be more targeted, based on the needs of the micro-business sector, and accompanied by ongoing monitoring and mentoring.

The Influence of MSME Growth on the Success of the People's Economy Through Public Policy

The results of the study indicate that cooperatives, through public policy (credit), do not have a significant impact on the success of the people's economy. This means that although the government has implemented public policies in the form of providing credit facilities that are expected to strengthen the role of cooperatives in the people's economy, these policies have not had a real impact on improving the welfare of the wider community. In the concept of a people's economy, cooperatives should act as a collective economic forum that connects the interests of small communities with larger economic resources. Through public policies,

such as interest subsidies and easy access to credit, cooperatives are expected to be able to increase the productivity of their members and expand the economic impact to the lower levels of society. However, the empirical results in this study show that the credit policy mechanism has not been effective in strengthening the role of cooperatives as a driving force for the people's economy.

Several factors may explain why this indirect effect is insignificant. First, many cooperatives in Indonesia still face institutional and managerial constraints. Weak organizational structures, a lack of financial transparency, and low levels of management professionalism make it difficult for cooperatives to manage credit funds optimally. This is consistent with research that shows cooperatives in Indonesia have not yet transformed into modern, efficient and accountable economic institutions (Chairina et al., 2025). Second, public credit distribution through cooperatives has not been well-targeted. In many cases, financing policies have not been accompanied by an adequate monitoring and mentoring system. As a result, credit funds distributed through cooperatives are not always utilized for their intended purpose. Third, public credit policies still tend to be administrative rather than strategic. These policies place more emphasis on the distribution of funds than on increasing the economic capacity of cooperatives and their members. However, according to Hatta's (1957) theory on the people's economy, cooperatives should ideally be a tool for the people's economic struggle based on the principles of family and mutual cooperation. However, in modern practice, this idealism is often hampered by a lack of guidance and systemic support from the government.

Furthermore, the theory of financial intermediation (Levine, 2005) explains that financial institutions or credit policies will only be effective in improving the economy if they are managed efficiently and directed at productive sectors. In this context, cooperatives, as socio-economic intermediary institutions, have not been able to play an optimal role due to limited resources and traditional management structures. Therefore, the indirect influence of cooperatives on the success of the people's economy through public policy (credit) is insignificant, because such policies have not been able to strengthen the function of cooperatives as people's economic institutions. Although conceptually, cooperatives and credit policies are designed to complement each other, in practice, this relationship is not yet synergistic due to weak implementation in the field.

4. Conclusion

Based on the results of research conducted on the influence of MSME and cooperative growth through public policy (credit) on the success of the people's economy, it can be concluded that the overall relationship between variables shows a different pattern between direct and indirect influences. The results of the path analysis show that MSME growth has a significant direct influence on the success of the people's economy. This means that the higher the MSME growth rate, the greater their contribution to improving the people's economy. MSMEs have proven to be the main driving force in strengthening the community economy, particularly through job creation, increasing the income of lower-income

communities, and equitable distribution of economic activity across various sectors. However, when the influence of MSME growth was tested indirectly through public policy in the form of credit, the results showed that the relationship was insignificant. This indicates that public policy in the form of credit has not fully strengthened the positive impact of MSME growth on the success of the people's economy. Limited access to financing sources, lack of financial literacy, and the persistence of administrative barriers are factors that prevent the role of credit from being optimal. Therefore, public policies regarding financing need to be evaluated to be more targeted and effective in supporting the growth of highly competitive MSMEs.

Meanwhile, the research also shows that cooperatives, either directly or indirectly through public policy (credit), have no significant impact on the success of the people's economy. This finding indicates that the role of cooperatives as a people's economic institution has not been able to make a meaningful contribution to strengthening the community's economy. Weak management, low member participation, and limited capital and innovation are factors that prevent cooperatives from optimally carrying out their economic functions. Although conceptually, cooperatives have great potential in realizing a community-based economy, their implementation in the field still faces many structural and managerial obstacles. In general, the results of this study indicate that the success of the people's economy in Indonesia is currently supported more by the dynamism and independence of the MSME sector than by cooperatives or public policy intervention through credit. This aligns with the theory of people's economic growth, which emphasizes that the strength of the people's economy lies in the ability of individuals and small groups to manage local resources productively. Therefore, efforts to strengthen the people's economy need to focus on developing competitive and innovative MSMEs, accompanied by improvements to the public policy system that is truly capable of bridging access to capital effectively.

As a limitation of this study, it should be noted that this research only uses public policy in the form of credit as a mediating variable, thus not including other forms of policy such as subsidies, training, or technological support, which could also influence the results. Furthermore, this research is quantitative with a cross-sectional approach, so it cannot capture the dynamics of long-term change.

Based on these results, it is recommended that the government pay more attention to the effectiveness of financing policies to ensure widespread access for MSMEs and cooperatives. Cooperatives also need to strengthen governance and professionalism to regain their identity as competitive people's economic institutions. Meanwhile, MSMEs are expected to utilize financing facilities productively to promote economic independence. Future research could broaden its scope by incorporating non-credit policy variables and a qualitative approach to provide a more comprehensive picture of the dynamics of the people's economy in Indonesia.

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