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Capacity Development Strategy for Manufacturing MSMEs in Bogor Regency

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ABSTRACT: This study aims to analyze capacity development strategies for Micro, Small, and Medium Enterprises (MSMEs) in the manufacturing sector of Bogor Regency. Despite their significant contribution to the region's Gross Regional Domestic Product (GRDP), the quantitative growth of MSMEs has not aligned with improvements in competitiveness and business sustainability. Adopting a descriptive qualitative approach, this research collected data through in-depth interviews with nine stakeholder groups and a review of policy documents and sectoral statistics. Referencing the capacity development framework from the United Nations Development Programme (UNDP) and Horton's three-tiered intervention model, the study identifies five key challenges in MSME capacity strengthening: weak stakeholder coordination, internal capacity gaps among business actors, non-contextual policy responses, disparities in program implementation, and the absence of outcome-based evaluation systems. The results suggest that capacity development must be carried out simultaneously at the micro level (entrepreneurs), meso level (supporting organizations), and macro level (policy and systems), with emphasis on data integration, actor segmentation, and outcome-based evaluation. The study contributes theoretically by contextualizing international frameworks to local governance and practically by proposing a classification-based strategy and behavior-sensitive evaluation model for MSME development. The results offer actionable insights for designing inclusive and adaptive capacity-building policies at the subnational level.

Keywords: MSMEs, Manufacturing Sector, Capacity Development, UNDP Framework, Bogor Regency

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) serve as the backbone of the national economy, contributing approximately 61% to Indonesia's Gross Domestic Product (GDP) and absorbing 97% of the total workforce (Kementrian Koordinator, 2023). Their strategic role is evident through their widespread presence in rural areas, labor-intensive nature, and dominance in

agricultural and home industry sectors. Consequently, MSMEs are recognized as crucial instruments for poverty alleviation and for advancing the Sustainable Development Goals (SDGs), notably poverty eradication (SDG 1), inclusive and sustainable economic growth (SDG 8), and inclusive and sustainable industrialization (SDG 9) (Agustin et al., 2022; Bappenas, 2023; Feriyanto, 2020; Hendratmoko et al., 2024; Martini & Woyanti, 2022; Pramaria, 2023; Tambunan, 2012).

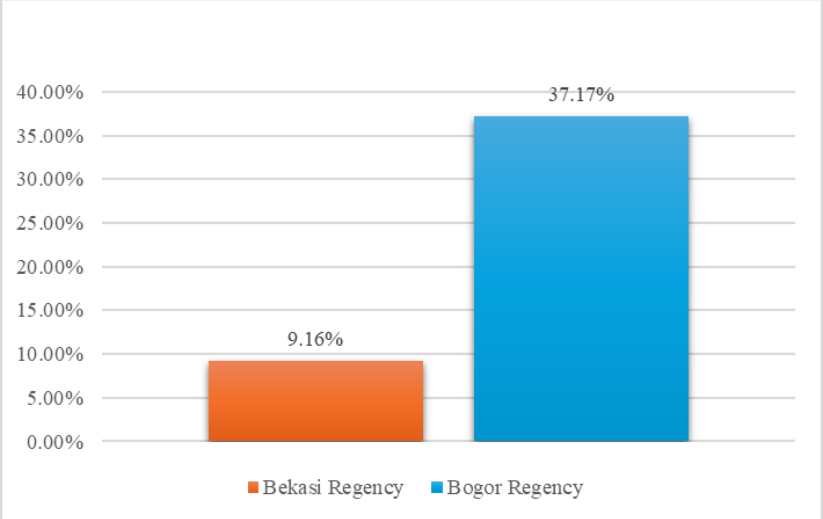
In regional development planning, sustainable development emphasizes balancing economic growth, social welfare, and environmental conservation by leveraging local potentials such as natural resources, human capital, and infrastructure, to enhance regional competitiveness and promote inclusive and sustainable economic development (Amir, 2024; Depari, 2024; Ra'is et al., 2020; Talli & Sulaiman, 2024). West Java Province plays a key role in this context, where the manufacturing sector accounted for 41.87% of the province's total Gross Regional Domestic Product (GRDP) in 2023 (BPS, 2024). GRDP consistently serves as a key indicator for assessing regional economic growth (Feronika Br Simanungkalit, 2020). Bogor Regency, a strategic region within West Java, ranks second in the number of MSMEs engaged in the manufacturing sector, contributing 13.16% to West Java's total manufacturing GRDP. According to data from the National Industrial Information System (SIINas), the number of MSMEs in this sector in Bogor Regency grew by 37.17% in 2023, indicating significant potential for local economic development.

Table 1. Constant Price GRDP of the Manufacturing Sector by Regency/City in West Java Province, 2023

Regency/City	Billion IDR	% Distribution
Bekasi Regency	218,988.74	30.59%
Bogor Regency	94,177.84	13.16%
Bekasi City	26,027.68	3.64%
Other Cities/Regencies	376,612.37	52.61%
Total (West Java)	**715,806.63**	**100.00%**

Source: BPS, processed data, 2024

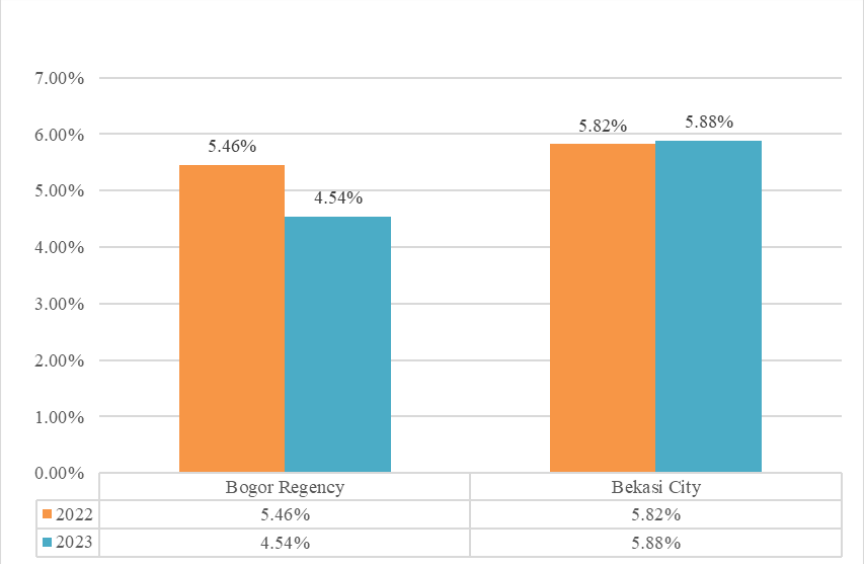
Figure 1. Growth of MSMEs in the Manufacturing Sector, 2023



Source: Ministry of Industry, National Industrial Information System, 2024

However, this quantitative growth has not directly translated into regional economic development. Bogor Regency recorded a negative economic growth rate of -0.92%, with the manufacturing sector growth declining from 5.46% in 2022 to 4.54% in 2023. Conversely, Bekasi Regency, with lower MSME growth, showed positive economic performance and an increased manufacturing GDP contribution. This disparity suggests that the increase in MSME numbers has not yet fully translated into enhanced regional development quality. It highlights fundamental issues regarding MSMEs' capacity to cope with competitive pressures, innovate products, and adapt to market changes.

Figure 2. Growth Rate of Manufacturing Sector GRDP by Regency/City in West Java (Percent)



Source: BPS, processed data, 2024

Challenges persist in the form of low educational attainment among MSME actors—only 7.13% are high school graduates—and limited participation in certification programs, with only 4.13% holding Domestic Component Level (TKDN) certificates, present significant challenges for capacity building (Ministry of Industry, 2024). The government plays a strategic role in fostering an environment conducive to local economic development (Sukandi Andi, 2024). Although the Bogor Regency Government has implemented various training programs since 2019—including product design, marketing, halal certification, and digitalization—their effectiveness remains limited due to low adoption at the implementation level.

This condition reflects a broader issue of underdeveloped MSME capacity, highlighting a significant research gap: the disconnection between MSME growth and economic impact. Thus, this study seeks to analyze the factors contributing to the suboptimal capacity of manufacturing MSMEs in Bogor Regency using capacity development frameworks. The findings are expected to offer data-driven, contextual recommendations to enhance MSME competitiveness and promote inclusive regional development.

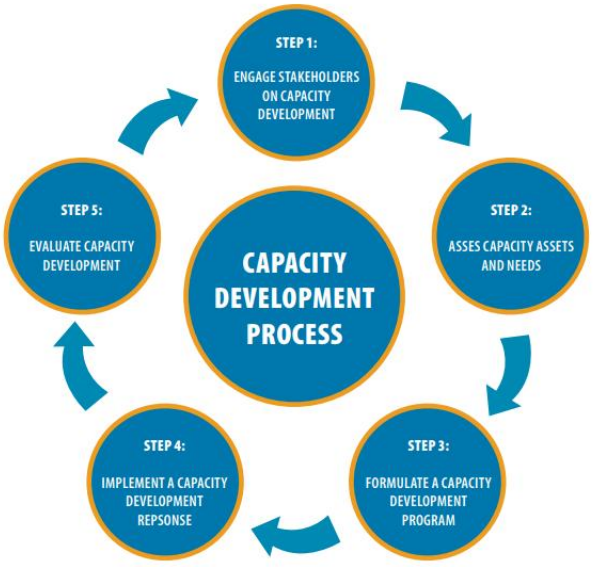
Capacity Development

Capacity refers to the ability of individuals, organizations, and systems to perform functions effectively, efficiently, and sustainably (Milen, 2001)). Goodman, as cited by Risca Amalia (2018), defines capacity as "the ability to carry out state objectives", emphasizing the realization of an entity's ability to achieve its stated goals. At the individual level, Grindle and Hilderbrand, as cited in Irawan (2016)Click or tap here to enter text., define capacity as encompassing technical, managerial, and motivational competencies. At the organizational level, it includes operational efficiency, access to technology, effective management systems, and adaptability to market changes. At the systemic or macro level, capacity involves public policy effectiveness, institutional coordination, and supportive infrastructure for MSME growth.

Morrison, as cited in Kristiana and Nathalia (2022), defines capacity development as a strategy designed to strengthen organizational performance through continuous learning. Keban (2000) categorizes capacity development objectives into two types: establishing a sustainable system for long-term organizational growth and enhancing specific aspects such as efficiency, effectiveness, responsiveness, and organizational learning to adapt and systematically solve problems.

This study draws from two main theoretical frameworks on capacity development, namely the UNDP (2008) five-stage model and Horton's (Horton, 2003) three-level classification. These frameworks are elaborated below.

Figure 3. Capacity Development Process



Source: UNDP, 2008

The UNDP model outlines five cyclical stages of sustainable capacity development:

1. Engage stakeholders – involving key actors from the beginning to sustain commitment;
2. Assess capacity assets and needs – identifying existing strengths and capacity gaps at individual, organizational, and system levels;

3. Formulate capacity development response – designing context-specific capacity-building strategies;
4. Implement capacity development – integrating programs with national systems and existing structures;
5. Evaluate capacity development – assessing the impact and sustainability of the interventions.

Figure 4. Levels of Capacity Development

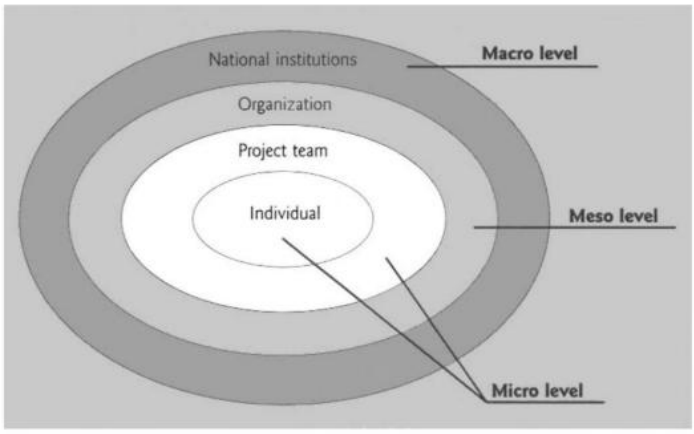


Figure 4. Levels at which capacity development can take place

Source: Horton, 2003

These stages are interconnected and cyclical and are complemented by Horton's (2003) multi-level approach, which divides capacity development into three layers:

- Micro level: strengthening individual MSME actors;
- Meso level: enhancing the capabilities of MSME support organizations;
- Macro level: reforming regulations and policy systems supporting the MSME ecosystem).

Empirical Studies on MSME Capacity Development

Numerous empirical studies have emphasized the strategic importance of capacity development in enhancing the competitiveness of MSMEs across individual, organizational, and systemic dimensions. These studies provide evidence that strengthening MSME capacity requires integrated efforts beyond isolated technical interventions.

Prasetyo & Wibowo (2022) underline the necessity of a coherent national policy roadmap to optimize the use of domestic MSME products, particularly in the context of implementing the Job Creation Law (Undang-Undang Cipta Kerja). Their findings suggest that consistent and long-term policy direction is essential to strengthen the MSME ecosystem and reduce structural fragmentation.

Tholib et al. (2023) reveal that human capital competence and performance-based incentives significantly influence MSME actors' work ethic in Bogor Regency, thereby enhancing business competitiveness. Their study underscores the importance of character-based development, business ethics, and motivational training through continuous capacity-building programs.

In the global context, Li dan Pang (2023) demonstrate that digital financial inclusion plays a pivotal role in overcoming financing inequalities commonly faced by SMEs. Broader access to digital financial services encourages investment in innovation and technological development, essential for business transformation and capacity strengthening.

Complementarily, Permatasari and Gunawan (2023) emphasize the importance of intersectoral and interministerial coordination in developing sustainable SME policies. Their research suggests successful SME development depends on collaborative efforts among the government, private sector, academia, and civil society in designing and implementing integrated policies.

Collectively, these studies affirm that MSME capacity development must be pursued through multi-level, multi-actor approaches that address not only skills enhancement but also institutional support systems and enabling policy environments.

Regulatory Frameworks Supporting MSMEs Capacity Development in Indonesia

Legal and policy instruments in Indonesia have formally acknowledged the strategic role of MSMEs in national development and have provided a regulatory basis for their empowerment.

Law No. 20 of 2008 on Micro, Small, and Medium Enterprises establishes the foundation for MSME empowerment through provisions on access to financing, entrepreneurship training, market facilitation, and technological support (Government of Indonesia, 2008). Further reinforcing this framework, Government Regulation No. 29 of 2018 concerning Industrial Empowerment, and Bogor Regent Regulation No. 62 of 2010 on Improving the Competitiveness of Regional Products, explicitly mandate capacity-building measures in the form of human resource development, product certification, and the development of business-supportive infrastructure (Government of Bogor Regency, 2010; Government of Indonesia, 2018; Khairunnisa et al., 2022).

These regulatory frameworks signify the government's intent to institutionalize MSME capacity development. Nevertheless, their implementation at the subnational level is often constrained by sectoral fragmentation, insufficient budget allocations, and limited institutional capacity. This underscores the need for integrated, well-coordinated approaches among various stakeholders to create an inclusive and adaptive business ecosystem.

Theoretically, this study draws from public administration and development administration frameworks, viewing the government as a strategic actor in designing, implementing, and evaluating policies responsive to MSME needs (Haryono et al., 2012). These approaches consider MSME capacity building not merely as an entrepreneurial responsibility but also as requiring deliberate structural intervention by the state or government through policy, institutional support, and multi-stakeholder collaboration.

METHOD

This study employs a descriptive qualitative approach aimed at identifying the underlying factors contributing to the suboptimal capacity of Micro, Small, and Medium Enterprises (MSMEs) in the manufacturing sector in Bogor Regency and formulating appropriate development strategies. This approach allows an in-depth exploration of the social phenomena and public policies influencing MSME capacity building, emphasizing local contexts and stakeholder perspectives (Soares et al., 2015).

This research was conducted in Bogor Regency and involving nine categories of key informants selected through purposive sampling. The selection targeted individuals with direct roles in the design, implementation, or evaluation of MSME-related policies and programs. The stakeholder groups included: (1) the Cooperative and MSME Office (Dinas Koperasi dan UKM), (2) the Trade and Industry Office (Dinas Perdagangan dan Perindustrian), (3) the Regional Development Planning Agency (Bappeda Litbang), (4) the Regional Economic Bureau (Bagian Perekonomian Setda Kabupaten Bogor), (5) the Ministry of Industry, (6) the MSME/IKM forums and associations, (7) MSME actors, (8) financial institutions, and (9) academics/researchers. Informants were selected based on their direct involvement in policymaking, program implementation, and business practices related to capacity development in the MSME manufacturing sector.

Data collection was carried out through in-depth and semi-structured interviews, as well as document analysis. The interviews aimed to explore informants' perspectives on challenges, opportunities, and strategies for strengthening MSME capacity. Document analysis was conducted on relevant regulations, government policies, annual reports, statistical data, and previous studies to ensure the validity and richness of the findings. This combination of data sources enabled a comprehensive understanding of both practical and regulatory dimensions affecting MSME capacity.

The qualitative data obtained were analyzed using the interactive model of Miles and Huberman as cited in Ramadhany et al., (2024), which includes three stages: data reduction, data display, and conclusion drawing. In the data reduction stage, raw data from interviews and documents were categorized and coded into thematic clusters such as human resource quality, institutional roles, access to financing, and regulatory support. These themes were then systematically presented in narrative form and visualized through matrices or tables to aid interpretation. Finally, the conclusion drawing stage synthesized key insights through analytical reflection and triangulation across data sources and informant groups.

In line with standard research ethics, this study prioritized the principles of informed consent, confidentiality, and research integrity. All participants were informed about the purpose and scope of the research. To ensure privacy, personal information were excluded from all data presentations. The analysis process was carried out objectively, and the data were used solely for academic and policy-oriented purposes.

RESULT AND DISCUSSION

Stage 1: Engage Stakeholders

The first stage of the UNDP capacity development framework emphasizes trust-building, open communication, and strategic alliances among key actors within the system. This stage serves as the foundation for subsequent phases, as institutional capacity cannot be built in isolation from stakeholder interactions. Engagement in this context refers not only to procedural participation but also to substantive involvement—measuring the extent to which stakeholders are genuinely involved in determining policy directions, implementing programs, and evaluating outcomes (UNDP, 2008).

In Bogor Regency, stakeholder engagement in MSME capacity development remains fragmented and under-institutionalized. Although coordination forums exist—linking local government agencies (OPDs), business associations, MSME communities, and national-level institutions such as technical ministries—these mechanisms are largely sectoral, administrative, and lack strategic integration. A government official at the Regional Secretariat explained that their role is primarily administrative and coordinative, focused on facilitating Mayoral Decrees or Circular Letters, without substantive authority to lead or harmonize technical program implementation.

At the national level, integration issues between major data systems hinder coordination. A representative from the Industrial Standardization and Services Center (BSPJI) noted: *"Unfortunately, SIINas is still not fully integrated with the OSS-RBA. If these systems were connected, reporting and mapping would be far more efficient."*

Ambiguity in roles between government and associations was also highlighted. According to the Department of Trade and Industry, *"Associations like the Chamber of Commerce should focus on field execution activities and partnerships, not duplicating technical training that already conducted by the state office department."*

The business community demonstrates limited intrinsic motivation. A Disdagin official observed, *"Many MSME actors aren't actually ambitious about growth. They consider their businesses as side activities. So even if they incur losses, it's not a big deal."*

Key finding: Stakeholder roles are unclear, coordination mechanisms are underdeveloped, and MSME participation remains superficial and passive.

Stage 2: Assess Capacity Assets and Needs

In the "Assess Capacity Assets and Needs" stage, the UNDP (2008) emphasizes the importance of identifying both existing and missing capacities across individuals, organizations, and systems. This assessment should address three essential questions: "capacity for what?", "whose capacity?", and "for what purpose?". This phase is crucial, as planning that does not reflect actual capacity conditions often results in misguided, inefficient, and ineffective programs.

In the context of MSMEs in Bogor Regency's manufacturing sector, the capacity assessment reveals that available assets have not been optimally utilized. Numerous multidimensional barriers

persist, including underqualified human resources, limited access to technology, difficulties in securing financing, and low participation in formalization and product certification schemes.

A major constraint lies in the quality and orientation of human resources. Most MSME actors possess low educational backgrounds and have limited exposure to managerial or entrepreneurial training. A DiskopUKM official noted*: "They know they need to become more tech-savvy, but many are reluctant to learn. We always try to adapt the training materials, but if their mindset doesn't change, the outcome remains the same."* This suggests that capacity development is hindered not only by technical deficiencies but also by a lack of transformative motivation.

Echoing this concern, an academic from a state university explained*: "For micro enterprises, skills are usually inherited from family. But to transition to the small or medium scale, they need structured knowledge, work experience, and better education."* This statement underlines the necessity for differentiated interventions tailored to varying enterprise scales and competency levels.

Access to production technology also remains limited. Despite national support programs such as machinery restructuring—which offer up to 45% reimbursement for locally produced equipment—entrepreneurs often lack the capital to cover upfront costs. A central government official explained: *"If business actors buy domestic production machines, we can reimburse up to 45%."* However, local feedback highlights a disconnect between policy design and grassroots capacity. As a Disdagin official stated: *"They're interested in the technology, but the problem is they don't know how to access it, and they don't have the capital to start."*

Digital adoption is similarly low. Many MSMEs are unable to conduct even basic digital transactions due to inadequate infrastructure and knowledge. An academic informant noted: *"Some MSME actors don't even own smartphones with sufficient capabilities. Websites are considered expensive. Some don't even know how to transfer funds to a bank."* Digital marketing training often fails because it is not preceded by foundational digital literacy.

Financial access is constrained by informality, poor documentation, and limited credit literacy. While government-backed programs such as KUR and MESRA exist, uptake remains low. A bank officer explained: *"We begin with an OJK credit check, then verify business legality, conduct field observations and collateral assessment, before proceeding to analysis."* Many MSMEs either avoid or fail this process due to their informal operational status.

Participation in certification processes such as PIRT, halal labeling, and TKDN is extremely low. In 2023, only 4.13% of manufacturing MSMEs in Bogor held TKDN certificates. A Disdagin officer acknowledged: *"The problem lies in high costs and limited budgets. We prioritize reaching a wider number of MSMEs rather than in-depth certification support."* Although training on certification exists, the absence of follow-up mentoring and funding support limits actual implementation.

Key finding: MSME capacity gaps are complex and systemic, characterized by low-quality human resources, technological marginalization, limited financial literacy, and weak legal compliance. These constraints are interlinked and require coordinated, multi-level strategies.

Stage 3: Formulate Capacity Development Responses

The third stage in the UNDP capacity development framework emphasizes the importance of designing appropriate interventions based on assessed needs and existing capacity assets. Effective interventions must consider local context, actor segmentation, and available institutional and resource potential. A well-crafted response is expected to bridge the gap between actual capacity and the capacity required to achieve development goals (UNDP, 2008).

However, within the MSME manufacturing sector in Bogor Regency, capacity development responses remain generic, event-driven, and lack comprehensive data-driven approaches. The lack of integration between central and local governments, coupled with weak segmentation of business actors, has limited measurable impact, as reported by several informants.

At the national level, the Ministry of Industry has launched various strategic programs—such as e-Smart IKM, TKDN certification support, and machinery restructuring. A representative from the Directorate General of Small and Medium Industries noted: *"We design programs based on our mapping. We assess SME needs in terms of raw materials, technology, human resources, and marketing."* However, execution at the regional level is hampered by the absence of detailed classification of business actors.

As one official from a central technical unit admitted: *"We don't have data on who can carve, who can do screen printing, so we can't classify them... All the trainings are generalized, even though the business actors have different capacities."* This results in the delivery of standardized training to enterprises with varying capacities, needs, and growth stages.

At the local level, responses are mostly ad hoc and event-oriented. Agencies such as DiskopUKM and Disdagin conduct training programs, licensing facilitation, and exhibitions. However, these initiatives are planned within annual budget cycles and rarely form part of a structured capacity-building roadmap. A DiskopUKM representative acknowledged*: "We always try to upgrade the training materials. But if the entrepreneurs still see training as routine and don't change their mindset, growth will be hard to achieve."*

Coordination among implementing agencies is also weak. Programs often overlap due to siloed planning. A local technical officer remarked: *"As long as the budget code exists, the program proceeds. But we don't know whether it aligns with other agencies' initiatives. Coordination is not optimal."*

Additionally, development interventions are rarely commodity-specific. Training for food, metal, and textile industries are often merged under the same curriculum. A local snack producer explained: *"Making banana chips only requires a pan and a shredder. What we need isn't high-tech machines, but expiration date testing and basic legality."*

Training topics are sometimes influenced by trends rather than actual business needs. As noted by a Disdagin official : *"If food is the training trend, everyone joins food training… even though not all businesses are in that sector. Programs are implemented first, data comes later."*

Moreover, incentive structures are lacking. Entrepreneurs who apply training in practice are rarely distinguished from passive participants. A technical agency official noted: *"If we've already given training and tools but they're not being used, there should be consequences. They shouldn't be allowed into the next training if there's no progress."*

Post-training evaluations also lack depth. A government official commented: *"There's no specific instrument to measure how well digital marketing training is applied. So we don't know whether it has any impact."*

Key finding: Formulated responses are poorly segmented, lack commodity specificity, and are not guided by outcome-based logic. The absence of business classification systems, incentive mechanisms, and integrated data significantly weakens program relevance and effectiveness.

Stage 4: Implement Capacity Development

The fourth stage in the UNDP (United Nations Development Programme, 2008) capacity development framework focuses on the implementation of formulated strategies through coordinated actions, resource mobilization, and stakeholder involvement. Effective implementation requires alignment with local readiness, continuous engagement, and follow-up mechanisms to ensure sustainability and impact.

In Bogor Regency, implementation efforts for MSME capacity development are ongoing but remain largely fragmented and administrative in nature. Local agencies such as DiskopUKM and Disdagin have conducted various training programs, facilitated product exhibitions, and supported digitalization workshops. However, these initiatives are generally planned around annual budget cycles and do not follow a standardized or tiered capacity-building model.

A DiskopUKM official explained: *"Technically, we can teach production skills, but if the entrepreneurs aren't mentally ready, they won't progress."* This indicates that aspects such as psychological readiness and internal motivation appear to receive limited attention in current implementation practices.

The lack of standardization and program continuity is evident. Many trainings are delivered as stand-alone activities, often without structured mentoring, follow-up visits, or learning reinforcement. Several informants indicated that after programs are completed, there is minimal tracking of participant progress or business performance, making it difficult to assess real capacity gains over time. This absence of post-program engagement limits the potential for sustained behavioral and organizational change.

Evaluation during implementation is focused predominantly on administrative metrics such as the number of participants, event reports, and budget absorption. A Disdagin officer admitted: *"Currently, evaluations have focused on the output. Outcomes are not considered because the documentation requirements are limited to that."*

The mismatch between program design and MSME readiness is another recurring issue. While some interventions aim at high-level outcomes such as export facilitation or advanced certification, many micro-enterprises lack the basic legal and administrative infrastructure required to participate. A local banana chip producer stated*: "My business is just banana chips, using basic tools. But to join a certification or export program, I need many licenses. I'm not there yet."*

Motivation to participate in training is also driven more by short-term incentives than by development goals. A DiskopUKM officer noted: *"Many participants join just to get pocket money or meet friends. There's no serious intention."* Similarly, A representative from the Ministry of Industry noted: *"If the motivation is merely short-term benefits, they won't endure in long-term development programs."*

Furthermore, there is no reward-punishment mechanism to encourage active learning or penalize inactivity. A technical agency officer commented: *"If a participant receives equipment but doesn't use it, there should be consequences. The tools should be withdrawn, or they shouldn't be allowed to join again."*

Key finding: Program implementation is fragmented and output-focused, with limited continuity, inadequate participant screening, and no performance-based incentives. These weaknesses reduce the effectiveness of interventions and prevent long-term capacity transformation.

Stage 5: Evaluate Capacity Development

The fifth stage in the UNDP (2008) capacity development framework emphasizes the importance of evaluating both outputs and outcomes of development efforts. Evaluation at this stage serves not only to assess implementation progress but also to generate feedback, measure behavioral and institutional change, and guide future improvements. Effective evaluation requires participation from stakeholders and the use of relevant micro-level indicators that reflect actual impact.

In Bogor Regency, evaluation practices for MSME capacity development remain predominantly output-oriented and administrative in nature. Local agencies often evaluate programs based on the number of participants, completion of scheduled activities, and budget disbursement. A Disdagin officer admitted: *"Currently, evaluations have focused on the output. Outcomes are not considered because the documentation requirements are limited to that."*

This reveals that evaluation processes are largely compliance-based and do not yet function as a learning or improvement tool. The documentation approach reinforces routine reporting but limits insight into program effectiveness.

A key challenge is the absence of standardized micro-level indicators. Without these, it is difficult to assess tangible changes in business performance, such as managerial competence, digital technology adoption, or income growth. A representative from the Regional Secretariat noted: *"We still don't have standardized quantitative indicators that can be applied across programs."*

This is compounded by the gap between macro-level national indicators and local program realities. A representative from a technical ministry added: *"Our indicators can only capture outcomes at the macro level. For micro-level results, it depends on each entrepreneur."* These limitations prevent program managers from evaluating the real effects of interventions at the enterprise level.

Participatory evaluation involving MSME actors is also limited. A representative from a business association stated: *"We've never been involved in an open evaluation. We don't even know what indicators are being used."*

A manager of a subdistrict MSME forum added: *"To date, there hasn't been an evaluation session that invites business actors or associations. Usually, it's just a report from the agency to their leadership."* These statements point to the absence of structured feedback loops and the exclusion of MSMEs from reflective evaluation, which undermines learning and accountability.

In contrast, financial institutions such as Bank BJB implement evaluation tools based on financial behavior. A credit officer explained*: "If a client applies for a top-up loan and maintains good credit quality, that means their business capacity has increased. That becomes a success indicator for us."* These practices

demonstrate that alternative outcome-based metrics—like loan repayment behavior or business expansion—can serve as effective evaluation tools in capacity development.

Academic institutions also remain underutilized in supporting evaluation. A university faculty member remarked*: "Research can support policy design. But so far, studies have been more documentation-based and not integrated into decision-making."* This indicates a missed opportunity to incorporate evidence-based methodologies and behavioral assessment tools into public sector evaluation design.

Key finding: Evaluation mechanisms are predominantly procedural and oriented toward administrative outputs, with limited use of behavioral or micro-level indicators. The absence of stakeholder involvement, fragmented data systems, and weak academic-policy integration hinders the development of an adaptive, evidence-based evaluation framework for MSME capacity development.

This study has examined the capacity development of MSMEs in Bogor Regency using the UNDP (2008) framework. While the five stages—stakeholder engagement, capacity assessment, program design, implementation, and evaluation—are formally addressed in policy and practice, the empirical findings reveal significant functional gaps at each stage. These gaps are not isolated but interrelated, revealing deeper systemic issues.

Structural Gaps and Institutional Rigidity

One major insight emerging from the findings is the fragmented coordination among stakeholders. Although formal mechanisms such as forums exist, they function more as bureaucratic rituals than strategic platforms. This reflects institutional rigidity, where government agencies operate in silos based on budget codes rather than integrated mandates. This condition aligns with Horton's (Horton, 2003) view that capacity is often constrained not by absence of resources but by disjointed institutional processes and unclear role delineation.

Stakeholder engagement is further hampered by the lack of shared data systems and weak leadership mandates to convene actors meaningfully. In this context, capacity development becomes an administrative activity rather than a transformative process.

Why Capacity Gaps Persist: Systemic and Cultural Barriers

The persistence of capacity gaps—especially in human capital, digital literacy, and legal formalization—can be attributed to both systemic policy design flaws and sociocultural inertia. Government programs tend to assume a uniform level of readiness among MSMEs, disregarding the enormous diversity in scale, education, and digital exposure.

The lack of actor segmentation in program design leads to mismatched interventions. This aligns with literature criticizing "one-size-fits-all" approaches in local economic development, which often fail to produce sustainable outcomes. The cultural perception of business as "sampingan" or a side activity further undermines motivation to formalize or scale operations. Capacity building is not just technical; it requires behavioral and mindset change, which is rarely addressed by current interventions.

Implementation as Routine, Not Strategy

Implementation is weakened by its event-based nature and absence of follow-through mechanisms. The findings show that post-training monitoring, mentoring, or behavior tracking are rarely conducted. This reveals a gap in strategic planning and underscores the absence of incentive structures to reward growth or penalize stagnation. From a capacity systems perspective, this reflects a disconnection between resource input and behavioral output.

Evaluation as Compliance, Not Learning

Current evaluation practices are mostly procedural and focused on documenting attendance, disbursements, or output counts. This limits their role in learning and adaptation. The lack of micro-level and behavioral indicators prevents institutions from assessing whether changes in practices or business performance actually occurred. In contrast, financial institutions provide a useful model of outcome-based evaluation using real indicators like credit growth or repayment discipline. This suggests that capacity development efforts in the public sector can benefit from cross-sectoral learning.

Theoretical and Practical Contributions

Theoretically, this study extends the application of the UNDP framework by contextualizing it in a decentralized governance system with fragmented institutional arrangements. It also complements Horton's model by emphasizing the role of actor segmentation and behavioral outcomes—elements often overlooked in top-down capacity planning.

Practically, the study proposes three key innovations:

1. The need for tiered MSME classification to guide differentiated program design.
2. The incorporation of behavior-sensitive performance indicators into monitoring and evaluation systems.
3. Stronger integration between local government and academic institutions to build evidence-based policies.

These contributions not only confirm existing findings but also highlight new dimensions of capacity failure—namely, behavioral stagnation and policy inertia—in subnational economic development.

Strategies for Developing MSME Capacity in the Manufacturing Sector of Bogor Regency

Capacity development, as emphasized by Horton et al. (2003), is a systemic process involving interventions at three interdependent levels: the micro (individuals), meso (organizations and networks), and macro (policy and institutional systems). This study affirms that meaningful and sustainable MSME development in Bogor Regency requires a deliberate, synchronized strategy across these three levels. Failure to integrate efforts across levels has resulted in fragmented initiatives and limited long-term impact.

1. Micro-Level Strategy: Enhancing Entrepreneurial Capacity

At the micro level, the central issue is the low internal motivation and limited skills of MSME actors. The study finds that many entrepreneurs treat their businesses as secondary to household obligations and engage in training primarily for short-term incentives, such as attendance allowances. This behavioral pattern undermines the objectives of government-sponsored capacity programs.

To overcome this, segmented training programs must be developed according to enterprise scale (micro, small, medium) and sector (e.g., food, metal, textile). One-size-fits-all approaches are no longer effective. Moreover, training must be complemented with long-term mentoring and coaching, especially to instill a growth mindset.

Beyond technical competencies, legal registration, financial literacy, and certification guidance are critical. Many MSMEs remain excluded from formal support mechanisms not because of resistance, but due to information gaps and administrative barriers. Therefore, outreach and facilitation must be improved through proactive government engagement.

Finally, evaluation indicators at this level must shift from inputs to outcomes—such as improvements in revenue, market access, or product innovation. This will enable local governments to measure real capacity change rather than event participation rates..

2. Meso-Level Strategy: Strengthening Institutional and Network

At the meso level, the primary constraint is the institutional fragmentation of MSME support systems. Agencies like DiskopUKM, Disdagin, and local business associations often work in silos under separate budget structures. The absence of joint planning, shared data, and integrated evaluation weakens coordination and program continuity.

To address this, regular and inclusive inter-agency coordination forums must be institutionalized—not just as ceremonial events, but as functional planning and review platforms. These forums should allow for shared program design, aligned resource allocation, and collective monitoring.

MSME associations and subdistrict forums must also be empowered as intermediary institutions. Their capacity to conduct grassroots mentoring, facilitate certification, and support peer learning needs to be systematically developed.

The design and delivery of training modules must be standardized yet flexible, adapting to business typologies and readiness levels. This is only possible if local governments integrate data systems (e.g., OSS RBA, SIINas, regional MSME databases) into a common, dynamic classification system.

Furthermore, evaluation processes should involve MSMEs, financial institutions, and associations as co-evaluators—transforming them from passive beneficiaries to active partners in policy development..

3. Macro-Level Strategy: Reforming Systems and Policy Frameworks

At the macro level, the study identifies major gaps in data integration, policy coherence, and regulatory incentives. Information systems remain scattered across agencies and levels of government, preventing real-time capacity mapping and strategic targeting.

Effective macro-level reform should begin with the development of an integrated MSME data lake that tracks business legality, production capacity, technology use, and market performance. This would serve as a foundation for both evidence-based policymaking and differentiated service delivery.

Cross-jurisdictional coordination—between district, provincial, and national governments—must be enhanced through role harmonization and shared strategic goals. For example, regulatory authority over medium-sized industries must be clarified, as they serve as critical bridges between micro/small enterprises and larger industrial ecosystems.

Moreover, incentive mechanisms should be designed to reward progression. Entrepreneurs who demonstrate measurable growth should gain access to more advanced resources (e.g., equipment subsidies, export facilitation). Conversely, exit criteria should be introduced to phase out unresponsive participants and refocus resources on high-impact actors.

Finally, research-based evaluation partnerships with academic institutions such as IPB should be formalized. Academics offer tools and methods for measuring intangible outcomes like innovation, business resilience, and leadership growth—elements often neglected in conventional bureaucratic evaluations.

Strategic Reflection

This study reinforces the understanding that capacity development must be integrated across levels. Isolated efforts at the micro level will remain ineffective without meso-level institutional support, and both will fail without enabling macro-level frameworks. In line with Horton's (2003) framework, this research demonstrates that synergy among actors, organizations, and policy frameworks is not a complementary feature—it is a structural necessity for sustained capacity development.

To ensure sustainable MSME capacity development, policymakers must:

1. Enhance entrepreneurial competencies and intrinsic motivation (micro),
2. Strengthen institutional networks and coordination mechanisms (meso), and
3. Reform systemic governance and integrate evidence-based policymaking (macro).

Only through multi-level, aligned, and adaptive strategies can Bogor Regency develop an inclusive, resilient, and competitive MSME manufacturing ecosystem.

Comparison with Previous Studies

The findings of this study align with numerous previous studies on MSME capacity development in Indonesia. Wibowo (2022)Click or tap here to enter text., emphasized the importance of a clear and measurable policy roadmap as a foundation for planning MSME capacity strengthening at the local level. This study reinforces that argument, particularly highlighting the importance of strategies that are not merely short-term or event-based but built on accurate information systems and outcome-based evaluation.

This research also supports the findings of Permatasari and Gunawan (2023), which underline the significance of multi-stakeholder synergy in MSME development. It adds further evidence that coordination across local government agencies, business associations, and financial institutions remains suboptimal, often operating in sectoral silos that hinder effective interventions.

In terms of financing and technology, the study's results are consistent with those of Li and Pang (2023), who stressed the urgency of improving MSMEs' access to formal financing and production technologies. Field observations revealed that despite the availability of financial schemes, most MSME actors struggle to access them due to issues related to legality, collateral, and low financial literacy.

However, this study offers additional contributions that have not been widely addressed in previous literature. A key contribution is emphasizing capacity development strategies based on business classification and entrepreneur motivation. Findings suggest that a uniform approach—treating all business actors equally without considering their capacity and orientation—has contributed to the ineffectiveness of many development programs.

Moreover, the study highlights the importance of participatory evaluation, focusing not only on administrative outputs but also on assessing tangible outcomes and impacts on business growth and entrepreneurial behavior.

While prior studies have emphasized coordination, financing, or data systems individually, this study provides an integrative view by simultaneously addressing micro, meso, and macro dimensions, and by introducing the behavioral element into capacity development discourse

Research Limitations and Policy Implications

Despite its conceptual and practical contributions, this study has several limitations. First, its geographic scope is limited to the manufacturing sector of MSMEs in Bogor Regency. Socioeconomic conditions, institutional structures, and MSME development dynamics in other regions may differ, requiring cautious generalization of findings.

Second, the study employs a fully qualitative methodology, although triangulation was conducted through multiple cross-sectoral informants. A standardized quantitative instrument for measuring MSME capacity was not developed. Incorporating a quantitative approach in future studies could enhance the precision of outcome measurement, particularly in assessing long-term behavioral and economic impacts of capacity-building programs.

Nevertheless, the strength of this study lies in the depth of its qualitative data, obtained through in-depth interviews and contextual exploration. Data validity is enhanced through triangulation involving technical government agencies, central institutions, business associations, MSME actors, and financial institutions.

From a practical standpoint, the study yields significant policy implications. One key implication is the urgent need to develop a classification system for MSMEs based on capacity and business characteristics. Such a system would enable governments to design more targeted interventions and avoid inefficient resource allocation. Additionally, strengthening outcome-based evaluation systems and involving associations in program planning and monitoring are crucial steps to ensure the sustainability of MSME capacity-building policies at the local level. These implications point to the need for adaptive governance structures that can translate diagnostic insights into differentiated, measurable, and scalable interventions.

Recommendations for Future Research

Based on the study's findings and limitations, the following strategic directions are proposed for future research:

1. Develop mixed-method approaches: Combining qualitative and quantitative methods will produce more comprehensive results. Quantitative surveys could be used to develop standardized capacity measurements, complementing qualitative insights into dynamics and perceptions.
2. Construct a sector- and commodity-based MSME capacity index: Future studies may develop composite indicators to assess entrepreneur readiness by sector, such as food, metal, textile industries, etc. These indices could include managerial, financial, technological, and marketing aspects.
3. Explore performance-based incentive mechanisms and multi-stakeholder collaboration: Future research should empirically test achievement-based incentive models and partnerships among government, the private sector, and associations to assess their effectiveness in driving behavioral change among entrepreneurs.
4. Evaluate tier-based training models using outcome metrics: Future studies should design and test tiered training interventions—from basic to advanced levels—using success indicators such as revenue growth, certification achievement, and market penetration.
5. Evaluate the impact of multi-level regulations on MSME ecosystem development: Further research is needed to investigate how regulatory coordination and harmonization across district, provincial, and national levels that influence the effectiveness of MSME's development at the local level.

By following these research directions, future MSME capacity development policies and strategies can become more evidence-based, contextually relevant, and focused on sustainable regional economic development.

CONCLUSION

This study reveals that capacity development for MSMEs in the manufacturing sector of Bogor Regency has not yet reached an optimal level. Five major challenges were identified: weak cross-stakeholder coordination, human resource capacity gaps, context-insensitive program responses, lack of standardized program implementation, and the absence of an outcome-based evaluation system.

Empirically, the study provides a comprehensive depiction of the complex challenges faced by regional MSMEs, highlighting a significant disparity between the growth in the number of MSMEs and their actual contribution to regional economic development. Theoretically, the study expands the application of the UNDP and Horton frameworks within a local context, enriching the discourse on the importance of multilevel approaches to small business capacity development. From an economic perspective, strengthening MSME capacity demonstrates strategic potential for promoting inclusive regional growth—particularly in labor-intensive sectors such as manufacturing.

A key contribution of this study is the proposition of a classification system for MSMEs based on their capacity levels and business readiness. A classification system is crucial for designing more targeted, efficient, and impactful policy interventions. Furthermore, the outcome-based evaluation model proposed by this research offers a viable alternative to the current reliance on administrative output-based evaluations, which have proven inadequate in capturing the real progress of MSME development.

Despite its contributions, this study has several limitations. First, its geographic scope is limited to Bogor Regency, meaning the findings cannot be generalized to other regions without comparative studies. Second, the qualitative approach used in this research cannot be used for statistical measurement of quantitative impacts. Third, the limited availability of micro-level data from government agencies prevents a more in-depth analysis of outcome-based success indicators. These limitations are primarily due to systemic conditions and the absence of an integrated data infrastructure, rather than methodological flaws in the research design.

Therefore, future research is recommended to adopt a mixed-method approach, expand the scope of regional analysis, and develop standardized outcome-based evaluation instruments to support evidence-based policymaking at the local level. As such, the study offers a replicable framework for other regions seeking to reform MSME development through integrated, evidence-based, and actor-sensitive policy instruments.

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