

ANALYZING THE EFFECT OF FINANCIAL LITERACY ON THE SUCCESS OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES): A CASE STUDY IN WEST JAVA

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Abstract

Financial literacy plays an important role in determining the sustainability and growth of Micro, Small, and Medium Enterprises (MSMEs). Many MSMEs face difficulties in managing their business finances due to a lack of understanding of financial recording, cash flow management, and investment planning. Limited access to financial education and limitations in adopting financial technology further exacerbate this condition, hampering the competitiveness and expansion of small businesses. This study aims to analyze the influence of financial literacy on the success of MSMEs in West Java and identify challenges and strategies for improving financial literacy among small and medium business actors. This study uses a qualitative approach by collecting data from various sources, such as previous research and study reports. The data obtained is analyzed systematically to identify patterns, relationships, and solutions that can improve the financial literacy capacity of MSMEs. The results of the study show that good financial literacy contributes to business stability through more effective cash flow management and more targeted investment strategies. Access to financing and an understanding of debt management are also important factors in supporting MSME growth. Therefore, improving financial literacy must be done through collaboration between the government, private sector, and academics to create a more sustainable business ecosystem for MSMEs.

Keywords: *Financial Literacy, Micro, Small and Medium Enterprises (MSMEs), West Java.*

A. INTRODUCTION

The economic landscape in Indonesia shows the crucial role of Micro, Small, and Medium Enterprises (MSMEs) as the main pillar of national economic growth and resilience. In West Java, MSMEs are the dominant sector that makes a significant contribution to job creation and improving community welfare. Local governments and various institutions continue to encourage the strengthening of this sector through empowerment policies and mentoring programs (Saputra & Darmawan, 2023). However, despite having great potential, many MSMEs still face various challenges that hinder their development and sustainability. Factors such as limited access to financing, low managerial capacity, and lack of understanding in managing financial aspects are the main obstacles that need to be overcome to ensure the competitiveness and success of MSMEs in the long term (Endris & Kassegn, 2022).

In the context of increasingly tight business competition, the ability of MSMEs to manage financial resources is a crucial aspect that determines the sustainability of their businesses. Many MSME actors still rely on unsystematic financial management

patterns, which often cause cash flow imbalances, inaccuracies in capital allocation, and difficulties in obtaining additional financing from formal financial institutions (Syamsari et al., 2022). One of the challenges often faced is the lack of structured financial records, making it difficult for business actors to carry out long-term planning and evaluate business performance. In addition, the habit of mixing personal finances with business finances is still a common phenomenon among MSMEs, which can cloud the financial condition of their business and hinder sustainable growth (Acampora et al., 2023).

The government has made efforts to increase MSME access to formal financial services through various policies, such as the People's Business Credit (KUR) program and digital-based financial assistance. However, the success of these programs still depends on the readiness and ability of business actors to understand and apply the principles of good financial management (Purbasari et al., 2021). Low awareness of the importance of financial recording and investment planning often makes it difficult for MSMEs to access credit from financial institutions. Not a few MSMEs end up trapped in informal loan schemes with high interest rates that worsen their financial condition. Therefore, efforts to improve financial understanding and skills among MSMEs are aspects that cannot be ignored in the strategy for developing this sector (Behera et al., 2024).

Technological changes also bring challenges for MSMEs in West Java. Although digitalization makes financial transactions and access to information easier, not all MSMEs can adapt to these changes. Most MSMEs still rely on conventional methods in running their businesses, including financial recording and capital management (Rahayu et al., 2023). Lack of digital and financial literacy is often an inhibiting factor for MSMEs to adopt new technologies that can improve their operational efficiency. In conditions like this, MSMEs that do not have adequate financial skills and knowledge will find it increasingly difficult to compete, especially amidst the wave of digitalization that is fundamentally changing the business landscape (Al-Shami et al., 2024).

In addition to the internal challenges faced by MSMEs, external factors such as economic instability, fluctuations in raw material prices, and changes in government policies also affect the sustainability of their businesses. When economic conditions are unstable, MSMEs that do not have good financial planning will be more vulnerable to negative impacts, such as decreased turnover, difficulty in paying financial obligations, and the risk of bankruptcy (Purwanti et al., 2023). In situations like this, a better understanding of financial management can help MSMEs make more informed decisions to maintain the stability of their businesses. With a good understanding of financial management strategies, MSMEs can be more flexible in facing external challenges and can design more sustainable business strategies (Nugrahanti et al., 2024).

The importance of financial literacy for MSMEs is increasingly recognized by various parties, including the government, financial institutions, and non-governmental organizations. Various financial training and education programs have been implemented to help MSMEs understand the basic principles of financial management, such as cash flow management, investment planning, and access to credit (Putra et al., 2023). However, the effectiveness of these programs is still being

debated, especially in terms of how much impact they have on improving the performance and success of MSMEs in the long term. Many MSMEs still experience difficulties in implementing the financial principles they have learned, either due to limited resources or because of cultural factors that still hinder changes in mindset in financial management (Vásquez et al., 2021).

On a broader scale, increasing financial literacy among MSMEs can have a positive impact on the regional economy. MSMEs that are more financially independent will be better able to contribute to creating jobs, increasing people's purchasing power, and strengthening the local economic structure. In addition, by having a better understanding of financial management, MSMEs can more easily establish partnerships with investors or financial institutions that can help them expand their business scale. Therefore, understanding how financial literacy contributes to the success of MSMEs is not only important in an individual context but also in a broader perspective related to regional and national economic development (Hasan et al., 2024).

In facing this challenge, research on the influence of financial literacy on the success of MSMEs is very relevant to be carried out. By understanding how the level of financial literacy affects various aspects of MSME operations, it is hoped that more effective strategies can be found to increase the competitiveness and sustainability of small and medium enterprises in West Java. This study not only seeks to identify the problems faced by MSMEs in financial management but also aims to provide recommendations that can help business actors improve their financial capabilities. Thus, this research is expected to provide a real contribution to the development of more effective and sustainable MSME empowerment policies and programs.

B. LITERATURE REVIEW

1. Financial Literacy

The development of the financial services industry is increasing and becoming more complex, thus changing the conditions of the financial market. Therefore, a person needs to understand basic financial knowledge related to the key to modern financial security. This knowledge is absolutely necessary for every individual to be able to utilize financial instruments and products optimally in order to make the right decisions for their welfare. As stated by ASIC, financial literacy can help someone make better financial decisions and get more benefits (Marcu, 2021).

According to Chen and Volpe, financial literacy is defined as the ability to manage personal finances. Meanwhile, Garman & Forgue state that financial literacy is knowledge of facts, concepts, principles, and technological tools that underlie being smart in using money. Furthermore, Robert T. Kiyosaki explains financial literacy as the ability to read and understand things related to financial/financial problems. Furthermore, financial literacy according to Huston is defined as a component of human resources that can be used to improve financial welfare. A person is said to be financially literate when they have the knowledge and ability to apply that knowledge (Foster et al., 2021).

According to Lisa Xu and Bilal Zia, the term financial literacy includes concepts that start from awareness and understanding of financial products, and financial institutions, and concepts about financial skills such as the ability to calculate

compound interest payments and more general financial skills such as money management and financial planning (Goyal & Kumar, 2021).

Another definition of financial literacy is an understanding of financial concepts and the ability to manage finances properly in making long-term and short-term decisions according to economic conditions. Financial literacy is the ability to understand to achieve a good level of understanding so that understanding, behavior, and expertise are things that influence financial literacy. Byme stated that low financial understanding will lead to making the wrong financial plans, and lead to achieving well-being at a non-productive age (Lingyan et al., 2021).

Meanwhile, a more complete definition is explained by Vitt, "Personal financial literacy is the ability to read, analyze, manage and communicate about the personal financial condition that affects material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy". In other words, personal financial literacy is the ability to read, analyze, manage, and communicate about personal financial conditions that affect economic well-being. This includes the ability to distinguish financial choices, discuss financial problems, plan for the future, and the competence to respond to life events that affect daily financial decisions and events in the general economy (Koskelainen et al., 2023).

The level of financial literacy possessed by each person is different. The difference in the level of financial literacy is what causes significant differences between individuals in accumulating assets both in the short and long term. Chiara Monticone explains that a person's level of financial literacy is influenced by: demographic characteristics (gender, ethnicity, education, and cognitive ability), family background, wealth, and time preferences. Meanwhile, Angelo Capuano and Ian Ramsay explained that personal factors (intelligence and cognitive abilities), and social and economic factors can influence a person's financial literacy and financial behavior. From the description above, it can be concluded that several factors can be factors in the difference in a person's level of financial literacy, both factors from within the individual and factors outside the individual (Koomson et al., 2023).

From the definitions above, it can be concluded that financial literacy is the knowledge and ability to manage finances in order to improve welfare.

2. Micro, Small and Medium Enterprises (MSMEs)

Definition of MSME according to Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs) the definition of MSMEs is as follows: Micro Enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria of Micro Enterprises as stipulated in this Law. Small Enterprises are independent productive economic enterprises, carried out by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or are part of either directly or indirectly Medium Enterprises or Large Enterprises that meet the criteria of Small Enterprises as referred to in this Law (Arifin et al., 2021).

Medium Enterprises are independent productive economic enterprises, carried out by individuals or business entities that are not subsidiaries or branches of

companies owned, controlled, or are part of either directly or indirectly with Small Enterprises or Large Enterprises with the number of net assets or annual sales results as stipulated in this Law (Safari et al., 2024).

Based on Law No. 20 of 2008 above, it clearly shows quite a large difference in terms of assets or turnover between micro and small enterprises and small and medium enterprises. However, what is clear is that overall, MSMEs play a role in the development of the national economy, this is also following Law No. 20 of 2008 Chapter II, article which states: "Micro, small and medium enterprises aim to grow and develop their businesses to build a national economy based on a just economic democracy" (Anatan & Nur, 2023).

Ariyanto defines MSMEs as a trading business managed by individuals or in the form of a business entity whose business activities are under a small or microscope. Meanwhile, according to the World Bank in Yazfinedi, MSMEs must meet certain criteria regarding the number of employees, annual balance sheet (assets) in US dollars, and turnover in US dollars (Hernita et al., 2021).

Based on Law Number 20 of 2008, MSMEs are classified into three types of businesses, namely micro, small, and medium. Businesses classified as MSMEs must meet certain criteria. Micro businesses are businesses with net assets of less than IDR 50 million and maximum annual sales of IDR 300 million, small businesses are businesses with net assets other than land and buildings between IDR 50 million and IDR 500 million and annual sales of between IDR 300 million and IDR 2.5 billion. Meanwhile, medium businesses are businesses with net assets other than land and buildings of IDR 500 million to IDR 10 billion and annual sales of between IDR 2.5 billion and IDR 50 billion (Febriyani et al., 2023).

Meanwhile, according to the World Bank, MSMEs are categorized based on the number of employees and the amount of assets or annual sales. According to the World Bank criteria, employees with less than 10 employees and the amount of assets or annual sales of less than 100,000 dollars are micro businesses. Small businesses are businesses with between 10 and 50 employees and the amount of assets or annual sales of 100,000 dollars to 3,000,000 dollars. Meanwhile, medium businesses are productive businesses with more than 50 employees and no more than 300 employees with the amount of assets or annual sales between 3,000,000 dollars to 15,000,000 dollars (Briones et al., 2024).

C. METHOD

This research will be conducted using a qualitative approach to analyze the influence of financial literacy on the success of MSMEs in West Java. This approach was chosen because it allows for an in-depth exploration of the experiences, challenges, and strategies implemented by MSME actors in managing their finances. Research data will be obtained from various sources, including previous research results and study reports. Thus, this research seeks to explore a broader perspective on the role of financial literacy in supporting the growth and sustainability of small and medium enterprises. After the data is collected, the analysis process will be carried out systematically to identify patterns, relationships, and key findings that are relevant to the research objectives. The data that has been collected will be processed and categorized based on certain themes to obtain a more comprehensive

understanding. This approach not only allows researchers to understand the problems faced by MSMEs in terms of financial literacy but also provides insight into solutions that can be applied to improve financial understanding and skills among small and medium business actors.

D. RESULT AND DISCUSSION

1. Financial Literacy Challenges in MSME Management

The challenge of financial literacy in managing MSMEs is one of the factors that contribute to the low level of business sustainability in this sector. Many MSMEs face difficulties in understanding and implementing financial principles that support their business growth. The main obstacles that arise are often related to a lack of understanding of basic financial management concepts, such as budget planning, transaction recording, and financial risk management. Without adequate understanding, business actors often face problems in allocating resources effectively, resulting in cash flow instability and limitations in business development. In addition, the complexity of financial regulations and limited access to relevant information also worsen the situation, trapping many MSMEs in ineffective financial management patterns.

One of the biggest obstacles faced by MSMEs in terms of financial literacy is the lack of systematic financial records. Many business actors still run their businesses informally without recording transactions routinely and in a structured manner. As a result, they have difficulty in identifying cash inflows and outflows, which ultimately has implications for the inability to evaluate their business performance accurately. Without well-documented financial data, MSMEs will also face difficulties in accessing financing from formal financial institutions, because they do not have financial reports that can be used as a basis for consideration by lenders. This irregularity in financial records also makes MSMEs vulnerable to financial leaks and decision-making that is not based on clear analysis, which in turn can lead to business failure.

In addition to unsystematic financial records, many MSMEs also have difficulty distinguishing between their personal and business finances. The lack of clarity in separating these two aspects often leads to the use of business capital for personal interests, which has a negative impact on the financial stability of the business. Without a clear separation, MSMEs tend to have difficulty in measuring business profitability, allocating capital efficiently, and planning sustainable business expansion. This also has an impact on the trust of external parties, such as investors or financial institutions, because the lack of clarity in financial reports can create the perception that the business is not managed professionally. As a result, many MSMEs experience stagnation or even fail to develop due to a lack of discipline in separating business finances from personal finances.

The lack of access to financial education is another factor that worsens the condition of MSME financial management. Many small and medium business actors do not receive adequate training or assistance in managing their finances, either from the government, financial institutions, or private organizations. This lack of education causes many MSMEs to not understand the importance of efficient capital management, the right investment strategies, and how to access more profitable

funding sources. In addition, without sufficient understanding of financial management, MSMEs often make inappropriate investment decisions, such as borrowing funds at high interest rates without considering the return capacity or expanding their business without careful risk calculations. This limited access to information and training makes it increasingly difficult for MSMEs to thrive in an increasingly competitive business environment.

In addition to technical factors, cultural aspects and habits in financial management also play an important role in determining the success of MSMEs. In many communities, there is still a mindset that small businesses do not require strict financial management, so many MSMEs tend to rely on personal experience or hereditary habits in running their businesses. This mindset often hinders the adoption of more professional financial practices, such as the use of financial technology for long-term financial recording or planning. In addition, in some cultures, there is a tendency to prioritize the direct use of money without considering more strategic aspects of planning and management. This habit can make business actors more vulnerable to financial pressure, especially when facing economic challenges or unexpected market changes. Therefore, changing the mindset and culture in financial management is one of the major challenges that must be overcome to increase the resilience and sustainability of MSMEs.

The financial literacy challenges faced by MSMEs show that serious efforts are needed from various parties to improve the understanding and application of better financial principles among small and medium business actors. Without adequate intervention, MSMEs will continue to face difficulties in managing their finances effectively, which can ultimately hinder the growth and stability of this sector. By improving financial literacy, MSMEs will have greater opportunities to grow, access wider funding sources, and face business challenges with more confidence. Therefore, a more comprehensive and sustainable approach to overcoming financial literacy barriers is key to creating a more stable and highly competitive business ecosystem.

2. Financial Literacy as a Determining Factor for MSME Success

Financial literacy plays a very important role in determining the success of MSMEs, especially in facing increasingly complex business challenges. One of the main aspects of financial literacy that contributes to the sustainability of MSMEs is good cash flow management. Healthy cash flow allows business actors to meet their operational obligations without experiencing excessive financial difficulties. Many MSMEs experience obstacles due to an imbalance between income and expenses, which often results in difficulties in paying employee salaries, purchasing raw materials, or even maintaining daily business operations. With adequate financial literacy, MSME actors can design more effective cash flow management strategies, such as setting a balanced payment schedule, reducing unnecessary expenses, and optimizing income with the right pricing strategy. In addition, understanding the difference between profit and cash flow is also crucial because many MSMEs feel that their business is profitable based on sales reports, but end up facing liquidity problems due to poor cash flow planning.

In addition to cash flow management, financial literacy also plays a role in helping MSMEs understand the right investment strategies to support their business

expansion and innovation. Many small business owners are reluctant to invest due to a lack of understanding of how investment can increase the scale and efficiency of their business. Without sufficient insight, MSMEs tend to hesitate in making investment decisions, whether in terms of technology, employee training, or product diversification. In fact, with a careful investment strategy, MSMEs can increase production capacity, expand market reach, and increase their competitiveness in a wider industry. Good financial literacy allows business owners to assess various investment opportunities based on the level of risk and potential return, so they can allocate capital most profitably. Conversely, without sufficient knowledge, MSMEs can get caught up in unproductive or even high-risk investments, which can endanger the stability of their business in the long term.

The ability of MSMEs to access appropriate financing is also greatly influenced by their level of financial literacy. Often, MSMEs face difficulties in obtaining additional capital due to a lack of understanding of the various financial instruments available. Many business actors still rely on informal loans with high interest rates or choose not to seek funding at all because they are afraid of the risk of debt. In fact, with a better understanding of existing financing schemes, such as people's business credit, equity-based loans, or funding from investors, MSMEs can obtain capital more profitably and sustainably. Financial literacy allows MSMEs to assess their financial capacity before taking out a loan, understand the payment terms, and use credit to increase business productivity. With wider and more planned access to financing, MSMEs can increase their competitiveness in the market, expand their distribution networks, and accelerate their business growth without facing excessive financial pressure.

In addition, financial literacy also helps MSMEs in preparing effective financial planning to deal with various business risks and economic uncertainties. The business world is full of unpredictable challenges, ranging from fluctuations in raw material prices, and changes in government policies, to economic crises that can impact consumer purchasing power. Without proper financial planning, MSMEs will be more vulnerable to the negative impacts of these external factors. By understanding the principles of good financial planning, business actors can develop risk mitigation strategies, such as building emergency funds, managing operational costs more efficiently, and diversifying revenue sources so that the business remains stable in uncertain conditions. In addition, good financial planning also helps MSMEs in setting long-term business targets, planning gradual expansion, and optimizing marketing strategies based on more realistic financial projections.

Awareness of debt management is also an important aspect of financial literacy that contributes to the sustainability of MSME businesses in the long term. Many MSMEs experience financial difficulties due to a lack of understanding in managing debt wisely. Some MSMEs take large loans without considering their ability to make payments, while others are too afraid to go into debt, thus hampering their opportunities to develop their businesses. Good financial literacy allows MSMEs to understand when is the right time to take on debt, how to manage installment burdens so as not to disrupt cash flow, and how to use debt to drive sustainable business growth. With a more strategic approach to debt management, MSMEs can avoid the

trap of excessive debt and ensure that every loan taken provides added value to the development of their business.

Thus, financial literacy is not only a supporting factor but also a key element in determining the success of MSMEs. Good cash flow management, understanding investment strategies, access to financing, effective financial planning, to awareness of debt management, all contribute to the resilience and growth of small and medium enterprises. Therefore, improving financial literacy among MSMEs should be a top priority for various stakeholders, including the government, financial institutions, and educational organizations. With a better understanding of finance, MSMEs will be able to optimize their resources, increase their competitiveness, and adapt to dynamic market changes, so that they can grow into stronger and more sustainable business entities.

3. Financial Digitalization and MSME Adaptation

Financial digitalization has brought significant changes in the way MSMEs manage their businesses, but the adoption of this technology still faces various challenges. Many MSMEs still rely on traditional methods of recording and transacting finances, either due to limited access to technology or a lack of understanding of its benefits. The main obstacle in adopting digital technology often comes from the unpreparedness of human resources in operating digital-based systems. Many small business owners feel burdened by the complexity of modern financial software, especially those without a technology background. In addition, limited technological infrastructure in some areas is also an inhibiting factor. Many areas in Indonesia still face obstacles to stable internet access, making the use of online-based financial applications difficult to implement. In situations like this, MSMEs prefer to continue using manual methods in recording finances, which often leads to irregular recording and errors in financial management.

The role of digital financial platforms is becoming increasingly important in facilitating business recording and transactions for MSMEs. Various financial recording applications have been developed to help business owners record income and expenses automatically, manage stock and monitor cash flow more systematically. The main advantage of financial digitalization is its ability to reduce the risk of human error in recording so that MSMEs can obtain more accurate and real-time financial data. In addition, digital platforms also allow business actors to conduct transactions more efficiently, either through electronic payments, digital wallets, or integration with banking systems. With features such as automatic financial reports and data-based business analysis, MSMEs can make more appropriate financial decisions, such as determining more competitive selling prices, setting promotional strategies, and optimizing the use of capital for business expansion. However, although various digital solutions are available, the adoption of this technology is not evenly distributed among MSMEs, especially in business sectors that are still accustomed to conventional methods.

The gap in the use of financial technology among MSMEs remains a significant challenge, with various factors being the main causes. One of the main factors is the lack of digital literacy among small business actors, which makes them reluctant to switch to new technologies. Many MSMEs still feel comfortable with traditional

methods due to the uncertainty of using digital platforms that are considered complicated and require special skills. In addition, the initial investment costs in adopting technology are often considered an additional burden for MSMEs who are still trying to survive amidst tight market competition. Some business actors are also concerned about the security risks of using digital financial systems, such as the threat of data hacking or misuse of financial information. Another factor that widens this gap is the lack of adequate technical support, where many MSMEs have difficulty getting assistance or training in operating digital financial applications. If not addressed, this gap can hinder the potential of MSMEs to increase their efficiency and competitiveness in the digital era.

Financial digitalization also has a major impact on access to capital for MSMEs, especially concerning formal financial institutions. Many MSME actors have difficulty in obtaining loans or business credit due to limitations in providing accurate financial reports. With a digital recording system integrated with banking, MSMEs can more easily meet administrative requirements to gain access to capital. Banks and financial institutions are now increasingly adopting big data technology to assess creditworthiness based on MSMEs' digital transaction track records. This opens up opportunities for small business actors to obtain financing without having to rely on physical collateral, which is often the main obstacle in conventional loans. In addition, the emergence of various fintech and peer-to-peer lending platforms has also further expanded access to capital for MSMEs that were previously unreachable by banks. However, on the other hand, without sufficient understanding of digital financing schemes, MSMEs are at risk of getting trapped in high-interest loans or failing to manage credit wisely, which can endanger the sustainability of their businesses.

The importance of mentoring and education in utilizing financial technology for MSMEs cannot be ignored in efforts to improve the efficiency of financial management. Without adequate guidance, many small business actors find it difficult to adapt to the ever-growing digitalization changes. Therefore, a training program is needed that can help MSMEs understand the benefits of financial digitalization and provide the skills needed to operate various financial platforms. The government, financial institutions, and technology providers need to collaborate in providing comprehensive training access, from how to use financial recording applications to optimal strategies in utilizing digital financial services. In addition, ongoing mentoring is also needed to ensure that MSMEs are not only able to adopt technology but can also use it effectively in managing their businesses. With the right education, MSMEs can be more confident in utilizing digital technology to improve business efficiency, optimize financial management, and strengthen their competitiveness in facing increasingly dynamic economic challenges.

Thus, financial digitalization offers various opportunities for MSMEs to improve their efficiency and competitiveness, but the challenges in its adoption are still quite large. Obstacles in access to technology, lack of digital literacy, and gaps in the use of financial platforms are factors that need to be addressed immediately so that MSMEs can gain maximum benefits from this digital transformation. Increasing access to financial technology will not only strengthen the recording and transaction system but also open up wider opportunities to obtain easier and more affordable capital. Therefore, collaboration between various parties, including the government,

banks, technology providers, and the business community, is essential to ensure that MSMEs can optimally adapt to financial digitalization. With the right strategy, MSMEs can develop into more modern, efficient business entities that can survive in the ever-growing digital economic ecosystem.

4. Financial Literacy Improvement Strategy for MSME Sustainability

Financial literacy is one of the key factors in ensuring the sustainability and growth of Micro, Small, and Medium Enterprises (MSMEs). In an increasingly complex and dynamic economic context, a good understanding of financial management is an urgent need for MSMEs to survive and thrive amidst market competition. However, the low level of financial literacy among MSMEs is often the main obstacle in managing cash flow, financial records, and making strategic decisions related to investment and business expansion. Therefore, various systematic and sustainable strategies are needed to improve MSME financial literacy, both through the role of the government, financial institutions, the private sector, and academics. Efforts to improve financial understanding not only have an impact on short-term business sustainability but also contribute to national economic stability by creating a stronger and more competitive business ecosystem.

The government and related institutions have a crucial role in improving financial understanding among MSMEs through various policies and strategic initiatives. Community-based financial education programs, seminars, and the provision of digital learning modules are the first steps that can help business actors understand the basics of financial management. In addition, regulations that support easy access to financial information are also important elements in encouraging broader financial literacy. The government can work with banks and non-bank financial institutions to provide educational materials that can be accessed for free by MSMEs, either through online platforms or through direct training in various regions. Not only that, incentives in the form of training subsidies or tax breaks for MSMEs that participate in financial literacy programs can be an additional impetus for more business actors to be involved in this financial capacity-building program.

Training and mentoring programs are very effective instruments in building better financial management skills for MSMEs. It is not enough to just provide access to information, business actors also need direct guidance so that they can implement the theories they learn in their daily business operations. Continuous mentoring allows MSMEs to gain a deeper understanding of various aspects of finance, from neat transaction recording, profit and loss calculations, and debt management, to strategic investment planning. This program can be designed with a needs-based approach, where training is tailored to the level of understanding and scale of the MSME business. Thus, business actors who are still in the early stages can get more basic material, while MSMEs that have developed can get more specific training related to investment diversification or financial risk management strategies. The involvement of mentors from financial professionals or business practitioners will also enrich MSMEs' insights into facing real financial challenges.

Access to inclusive financial information and resources is another factor that needs to be considered in efforts to improve MSME financial literacy. Many small business actors do not have access to formal financing sources due to their limited

understanding of administrative procedures or because of the lack of supporting documents that meet banking requirements. Therefore, a more inclusive strategy is needed to ensure that all MSMEs, including those in remote areas or those without asset collateral, can still obtain financing that suits their needs. The development of technology-based financial services, such as fintech and peer-to-peer lending, can be a solution in expanding access to capital for MSMEs that still have difficulty obtaining loans from conventional financial institutions. However, the use of this financial technology must also be balanced with adequate education so that business actors can understand the risks and mechanisms of using digital financial services safely and responsibly.

Collaboration between the private sector, government, and academics is a strategic step that can accelerate the empowerment of MSMEs in terms of financial literacy. Large companies can play a role in providing training and mentoring to MSMEs through corporate social responsibility (CSR) programs that focus on increasing business capacity. The government, on the other hand, can create policies that support a healthy business ecosystem for MSMEs, including in terms of regulations that facilitate access to capital and protect small businesses from detrimental financial practices. Meanwhile, academics can contribute through in-depth research on the effectiveness of financial literacy strategies and the development of training curricula that are more relevant to the needs of MSMEs. The synergy between these three parties will create a more holistic approach to improving financial understanding among small and medium business actors while ensuring that financial literacy is not just a theory, but can be applied in real life in daily business practices.

Evaluation of the effectiveness of financial literacy improvement programs is an important step to ensure that every initiative taken truly has a positive impact on MSMEs. Without systematic evaluation, various training and mentoring programs risk becoming mere formalities without any significant changes in MSME financial management. One method that can be applied is to survey program participants to measure their increased understanding of certain financial aspects before and after participating in the training. In addition, long-term monitoring of MSMEs that have received financial education is also needed to see how they apply the knowledge gained in their business practices. Indicators of the success of the financial literacy program can be measured by the increase in the number of MSMEs that have orderly financial records, their increased access to formal capital, and their ability to face financial crises with more mature strategies. With ongoing evaluation, various parties involved in the financial literacy program can make improvements and adjustments so that the initiatives carried out are more effective and relevant to the challenges faced by MSMEs.

The strategy to improve financial literacy for MSMEs must be carried out comprehensively by involving various parties and covering various aspects related to the financial management of small businesses. The government, financial institutions, the private sector, and academics need to work together to create an ecosystem that supports improving financial understanding for MSMEs through appropriate policies, needs-based training programs, and more inclusive access to information and resources. Continuous evaluation must also be carried out to ensure that every effort

made has a real impact on encouraging the growth and sustainability of MSMEs. With better financial literacy, MSMEs will not only be able to survive amid increasingly tight market competition but can also develop into more professional, innovative businesses that contribute more to the national economy.

E. CONCLUSION

Improving financial literacy is a crucial element in ensuring the sustainability and growth of MSMEs amidst increasingly complex market competition. A good understanding of financial management allows MSMEs to optimize transaction recording, manage cash flow more efficiently, and make more strategic investment decisions. To achieve this, collective efforts are needed from the government, financial institutions, the private sector, and academics to provide access to comprehensive financial education, needs-based training programs, and more inclusive financial resources for MSMEs. The strategy to improve financial literacy must be accompanied by ongoing evaluation to ensure its effectiveness in increasing the financial capacity of MSMEs. Monitoring the results of training and mentoring programs will provide an overview of the extent to which MSME actors can apply the knowledge gained in their business practices. With close collaboration between various parties and policies that support MSME growth, financial literacy can be a strong foundation for encouraging the stability and sustainability of the small and medium business sector.

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