International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

The Role of Financial Literacy in Enhancing Access to Finance and MSME Growth in the Special Region of Yogyakarta

Muhammad Rayyan Al-Mughni[1], Katiya Nahda[2]

[1,2,3]Department of Management, Department of Management, Faculty of Business and Economics University of Islam Indonesia, Indonesia.

Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economy by contributing significantly to GDP and employment. However, many MSMEs still face challenges in accessing external financing due to limited financial literacy. This study aims to empirically examine the role of financial literacy in improving access to financing and fostering business growth among MSMEs in the Special Region of Yogyakarta. Using a quantitative approach and a sample of 114 MSME owners, data were analyzed through Partial Least Squares Structural Equation Modeling (PLS-SEM). The results reveal that financial literacy has a significant positive effect on both access to finance and MSME growth, Moreover, access to financing also positively influences business growth. These findings align the Theory of Planned Behavior and the Resource-Based View, highlighting that financial literacy serves as a strategic intangible resource that enhances MSME competitiveness and sustainability. The study recommends strengthening education and improving the financing ecosystem to support MSME development.

Keywords: financial literacy, access to financing, MSME growth

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) serve as a critical pillar in Indonesia's economic landscape, contributing approximately 60% to national GDP and employing over 117 million individuals (KEMENKEU, 2024). Their role in promoting inclusive economic growth, reducing unemployment, and strengthening local economies is well established. However, despite their significance, many MSMEs face persistent barriers in accessing formal financial services.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

According to Pricewhaterhouse Coopers (PWC) Indonesia, about 74% of MSMEs are still excluded from the formal financial system due to inadequate financial knowledge and lack of documentation (Annur, 2019). The majority of MSMEs in Indonesia still face challenges related to low financial literacy, making it difficult for them to optimally utilize financial services to support business growth (Henry & Mutiah, 2024). The Financial Services Authority (OTORITAS JASA KEUANGAN, 2023) similarly notes that MSMEs with low financial literacy are less likely to secure funding from formal institutions.

Financial literacy is defined as the ability to understand and effectively use various financial skills, including budgeting, credit management, savings, investment, and risk management (OECD, 2024; Rahmawati et al., 2023). Studies suggest that improved financial literacy increases the likelihood of obtaining financial access, and in turn, supports business development (Adomako et al., 2016); Hasan et al., 2021). However, prior research presents mixed results. Some findings suggest a significant link between financial literacy and business growth, while others argue that a high level of financial literacy does not guarantee effective financial planning and evaluation, thus having no significant impact on business performance and growth (Iqnatia et al., 2021).

This study investigates the empirical relationship between financial literacy, access to finance, and MSME growth in Yogyakarta, a region with dynamic small business activity and strong government support for entrepreneurship.

Objectives

This article aims to

1. Examine the effect of financial literacy on access to finance among MSMEs in the Special Region of Yogyakarta.
2. Analyze the influence of access to finance on the growth of MSMEs.
3. Investigate the direct impact of financial literacy on MSME growth.

LITERATURE REVIEW

Theoretical Framework

This study is based on two core theoretical perspectives: the Theory of Planned Behavior (TPB) and the Resource-Based View (RBV). The Theory of Planned Behavior explains that human behavior can be planned according to the stimuli provided (Ajzen, 1985). In the context of MSMEs, financial literacy shapes attitudes toward finance, increases confidence in managing financial risk, and fosters responsible decision-making (Nurbaeti et al., 2019; Bangun et al., 2023).

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

RBV theory helps businesses identify and leverage unique internal resources that are difficult for competitors to imitate, in order to maintain a sustainable competitive advantage (Barney, 2001). Financial literacy, as an intangible asset, can enhance an enterprise's ability to mobilize resources, evaluate financial options, and grow sustainably (Astohar et al., 2023; Mellinia et al., 2023).

Empirical Studies

A study conducted in Ghana by Tuffour et al (2022) also concluded that financially literate managers tend to achieve better firm performance due to their knowledge and understanding of financial issues. Conversely, research by Pardede & Wafa (2023) found that even with improved literacy, financial growth was limited without accompanying access to capital or external support.

Research by Rachmawati & yasin (2022) and Esubalew & Raghurama (2020) demonstrates that MSMEs with better access to loans are more likely to expand operations, invest in innovation, and sustain business performance.

METHODOLOGY

This research adopts a quantitative approach using a cross-sectional design. Data were collected through structured questionnaires distributed online to MSME owners in the Yogyakarta region. A total of 114 valid responses were collected, exceeding the minimum sample size calculated using (Hair et al., 2019) guidelines.

Data analysis was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM). Validity and reliability were tested through outer model analysis (convergent and discriminant validity), while hypothesis testing was conducted via inner model analysis (t-tests and R-square evaluation).

RESULT

The results show that all measurement indicators meet the required validity and reliability criteria. The outer loading values exceed 0.5, and AVE values for all constructs are above 0.5. Composite Reliability and Cronbach's Alpha also exceed 0.7, indicating strong internal consistency.

Hypothesis testing revealed the following:

H1: Financial literacy positively influences access to finance

The hypothesis is supported, with a path coefficient of 0.720, t-statistic of 12.048, and p-value of 0.000. This indicates a strong and statistically significant and a p value of

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

0.000. This indicates a strong and statistically significant relationship between financial literacy and access to finance among MSMEs.

H2: Access to finance positively influences MSME growth

The analysis shows that hypothesis is supported, with a path coefficient of 0.292, t statistic of 2.002, and p-value of 0.023. This confirms that access to finance contributes positively to the growth of MSMEs.

H3: Financial literacy positively influences MSME growth

This hypothesis is also supported, with a path coefficient of 0.399, t-statistic of 3.063, and p-value of 0.001, indicating a significant and positive impact of financial literacy on MSME growth.

The analysis shows

The R-square value for access to finance is 0.517, indicating that financial literacy explains 51,7 % of the variance in financing access. Meanwhile, financial literacy and financing together explain 14,2 % of the variation in business growth.

DISCUSSION

This study confirms the theoretical assumptions of both TPB and RBV. Financially literate entrepreneurs are more confident, proactive, and capable of managing risk, which increases their eligibility for loans and investment. The ability to interpret financial statements and communicate business performance enhances credibility with banks and other lenders.

Moreover, access to finance as a vital enabler of business growth. It allows entrepreneurs to invest in equipment, marketing, technology, and human resources areas critical for scaling operations. However, the relatively modest impact on business growth suggests that literacy and financing must be supplemented by strong business strategies, market knowledge, and external support systems.

The findings also highlight the need for a holistic support system, where financial literacy is complemented by government facilitation and simplified banking procedures to enhance inclusion.

CONCLUSION

This study provides empirical that financial literacy significantly enhances access to finance MSMEs in Yogyakarta. Both financial literacy and acces to finance positively affect business growth, confirming their role in MSME sustainability. However, their

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

influence is not absolute and must be understood as part of a broader ecosystem that includes managerial skills, market conditions, and institutional support.

SUGGESTION

MSME owners should enhance their financial knowledge to better manage resources and access external funding. Policymakers and financial institutions are encouraged to provide targeted financial education and simplify access to credit. Future research should explore qualitative factors such as entrepreneurial behavior and digital finance to deepen understanding.

REFERENCES

Adomako, S., Danso, A., & Ofori Damoah, J. (2016). The moderating influence of financial literacy on the relationship between access to finance and firm growth in Ghana. Venture Capital, 18(1), 43–61. https://doi.org/10.1080/13691066.2015.1079952

Ajzen, I. (1985). From Intentions to Actions: A Theory of Planned Behavior IcekAjzen.

Astohar, A., Dyah Praptitorini, M., Ihsan, M., Suyatno, Y., Aulia, J., S1, A., & Totalwin, S. (2023). Peran Inklusi Keuangan Dalam Memediasi Pengaruh Financial Technology Dan Literasi Keuangan Terhadap Kinerja UMKM di Kota Semarang. Jurnal Akuntan Publik, 1(3), 426–443. https://doi.org/10.59581/jap-widyakarya.v1i3.2682

Bangun, C. S., Suhara, T., & Husin, H. (2023). THE APPLICATION OF THEORY OF PLANNED BEHAVIOR AND PERCEIVED VALUE ON ONLINE PURCHASE BEHAVIOR. Technomedia Journal, 8(1SP), 123–134. https://doi.org/10.33050/tmj.v8i1sp.2074

Barney, J. B. (2001). Resource-based theories of competitive advantage: A ten-year retrospective on the resource-based view. Journal of Management, 27(6), 643–650. https://doi.org/10.1177/014920630102700602

Annur. (2019, June 28). Survei PwC: 74% UMKM Belum Dapat Akses Pembiayaan. Katadata.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). MULTIVARIATE DATA ANALYSIS EIGHTH EDITION. www.cengage.com/highered

Hasan, M., Le, T., & Hoque, A. (2021). How does financial literacy impact on inclusive finance? Financial Innovation, 7(1). https://doi.org/10.1186/s40854-021-00259-9

Henry, & Mutiah, D. (2024, May 18). 64 Persen UMKM di Indonesia Dikelola Perempuan, Pemodalan dan Literasi Keuangan Jadi Tantangan Utama. Liputan6.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Iqnatia, Y., Nurmatias, & Pangestuti, D. C. (2021). PENGARUH LITERASI KEUANGAN, INOVASI, DAN PERAN PEMERINTAH TERHADAP PENGEMBANGAN USAHA KECIL DAN MENENGAH. JURNAL APRESIASI EKONOMI, 9(26139774), 213–228.

KEMENKEU. (2024, October 28). Tujuh Tahun Mendukung Usaha Mikro Bertumbuh: Evaluasi dan Tantangan. KEMENKEU.

Mellinia, P. S., Setyorini, T. C., & Budiarti, L. (2023). Strategi Pemulihan UMKM Kuliner Pasca Pandemi Covid-19. JURNAL MANEKSI, 12(4), 2023.

Nurbaeti, I., Mulyati, S., Sugiharto, B., Tinggi, S., & Sutaatmadja, I. E. (2019). THE EFFECT OF FINANCIAL LITERACY AND ACCOUNTING LITERACY TO ENTREPRENEURIAL INTENTION USING THEORY OF PLANNED BEHAVIOR MODEL IN STIE SUTAATMADJA ACCOUNTING STUDENTS. Jurnal of Accounting for Sustainable Society (JASS).

OECD. (2024). Recommendation of the Council on Financial Literacy. http://legalinstruments.oecd.org

OTORITAS JASA KEUANGAN. (2023). PENINGKATAN LITERASI DAN INKLUSI KEUANGAN DI SEKTOR JASA KEUANGAN BAGI KONSUMEN DAN MASYARAKAT.

Pardede, R. N. A., & Wafa, Z. (2023). Pengaruh Literasi Keuangan dan Akses Keuangan Terhadap Perkembangan Usaha Mikro Kecil Menengah di Yogyakarta. JPMNT : JURNAL PENGABDIAN MASYARAKAT NIAN TANA, 2(1), 22–27. https://doi.org/10.59603/jpmnt.v2i1.254

Rahmawati, A., Wahyuningsih, S. H., & Garad, A. (2023). The effect of financial literacy, training and locus of control on creative economic business performance. Social Sciences and Humanities Open, 8(1). https://doi.org/10.1016/j.ssaho.2023.100721

Tuffour, J. K., Amoako, A. A., & Amartey, E. O. (2022). Assessing the Effect of Financial Literacy Among Managers on the Performance of Small-Scale Enterprises. Global Business Review, 23(5), 1200–1217. https://doi.org/10.1177/0972150919899753

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.