

The Effect of Business Capital Financing Utilization on MSME Development: The Moderating Role of Financial Literacy (Evidence from MSMEs in East Kota District, Gorontalo City Financed by Amarthia Point)

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Abstract

This study aims to analyze the effect of business capital financing utilization on the development of micro, small, and medium enterprises (MSMEs) and to examine the role of financial literacy as a moderating variable. The research employed a quantitative method with a descriptive approach. Data were collected through questionnaires distributed to 96 MSME owners who received financing from Amarthia in East City District, Gorontalo City. Data analysis was conducted using Moderated Regression Analysis with the assistance of SmartPLS software. The results indicate that the utilization of business capital financing has a positive effect on MSME development. However, the moderation test results show that financial literacy does not moderate the effect of business capital financing utilization on MSME development. The t-statistic value of 0.712, which is smaller than the significance threshold of 1.96, and a significance value of 0.477, which is greater than 0.05, indicate that financial literacy does not function as a moderator. These findings suggest that improvements in MSME development are primarily influenced by the amount and form of financing utilization itself rather than by the financial literacy level of business actors.

Keyword: Business Capital Financing Utilization, Financial Literacy, MSME Development



INTRODUCTION

Micro, small, and medium enterprises (MSMEs) constitute a fundamental pillar of the Indonesian economy and contribute significantly to employment creation and regional economic growth. In Gorontalo City, MSMEs play a vital role in driving local economic activities. Over the past decade, the number of MSMEs in Gorontalo Province has increased substantially, indicating a positive growth trend. In 2024, the number of administratively registered MSMEs reached 105,509 units, reflecting a significant increase compared to the previous year. This growth confirms that MSMEs serve as a key driver of the local economy.

One of the districts with a high concentration of MSMEs in Gorontalo City is East Kota District, particularly in the trade, culinary, and service sectors. Its strategic location near the city center provides broad market access for home-based and small-scale enterprises. Despite this potential, MSMEs in East Kota District continue to face major challenges, especially related to limited business capital. Restricted access to financing from formal financial institutions often constrains MSMEs' ability to expand production capacity, improve competitiveness, and sustain business growth.

To overcome capital constraints, various financing schemes have been introduced by the government and financial institutions, including banking programs, cooperatives, and fintech-based microfinance services. One such institution is Amarthia Point, a fintech-based microfinance provider that offers unsecured group-based lending to MSMEs with limited access to conventional financing. In East Kota District, Amarthia Point has financed a substantial number of MSMEs, contributing to increased access to business capital.

However, empirical evidence and field observations indicate that not all MSMEs that receive financing experience significant business development. While some enterprises report increases in revenue and employment, others remain stagnant or face difficulties in sustaining operations. These mixed outcomes suggest that the effectiveness of financing utilization varies among MSMEs and may be influenced by internal factors such as financial management capability.

Previous studies have reported inconsistent findings regarding the impact of financing utilization on MSME development. Some studies confirm a positive and significant relationship between financing and business growth, while others report insignificant or weak effects. These inconsistencies indicate that financing alone may not be sufficient to drive MSME development. Financial literacy is therefore considered a critical moderating factor, as it determines how MSME actors plan, manage, and utilize financial resources effectively.





Although business financing is essential for MSME sustainability, business development is not solely determined by capital availability. Moderating factors, particularly financial literacy, play an important role in ensuring that financing is used productively. Therefore, this study investigates the effect of business capital financing utilization on MSME development, with financial literacy as a moderating variable, focusing on MSMEs in East Kota District, Gorontalo City, financed by Amarthia Point. This study is expected to provide a more comprehensive understanding of the factors supporting sustainable MSME growth.

METHOD

This study employs a quantitative research approach with an explanatory design to examine the effect of business capital financing utilization on MSME development, as well as the moderating role of financial literacy. The research was conducted in East Kota District, Gorontalo City, focusing on MSMEs that received business capital financing from Amarthia Point. The population of this study consists of all MSMEs in East Kota District, Gorontalo City, that have obtained financing from Amarthia Point. Based on data obtained from Amarthia Point, a total of 2,188 MSMEs had received financing up to October 2024. The sample was determined using a purposive sampling technique, with criteria including MSMEs that actively received financing and had been operating for at least one year. Primary data were collected through structured questionnaires distributed directly to MSME owners. The questionnaire was designed using a Likert scale to measure respondents' perceptions of financing utilization, financial literacy, and MSME development. Secondary data were obtained from official reports, institutional documents, and relevant literature to support the analysis. The independent variable in this study is business capital financing utilization, which reflects how MSMEs use the financing received for productive business activities. The dependent variable is MSME development, measured through indicators such as business growth, income improvement, asset expansion, and business sustainability. Financial literacy serves as a moderating variable, representing the ability of MSME owners to manage, plan, and make financial decisions effectively. Data analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with SmartPLS software. This method was selected due to its ability to analyze complex models involving moderation effects and its suitability for research with relatively small samples. The analysis process included the evaluation of the measurement model (validity and reliability testing) and the structural model (hypothesis testing).



RESULTS AND DISCUSSION

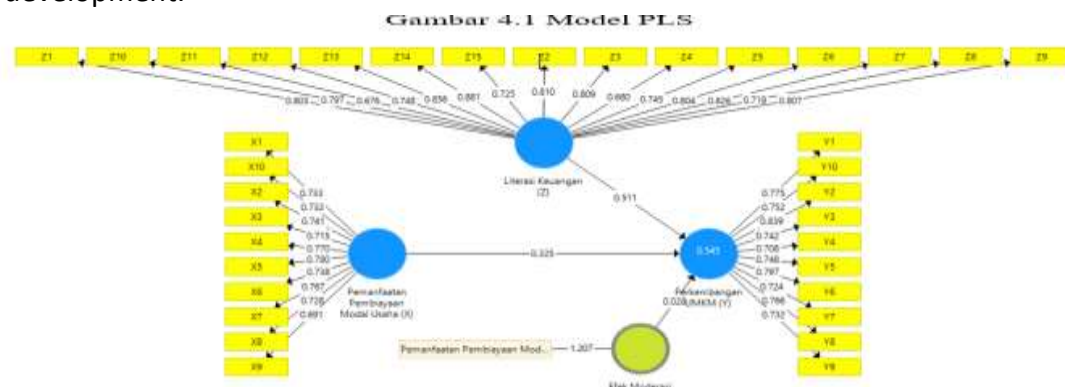
The analysis was performed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results include the evaluation of the structural model to test the proposed hypotheses regarding the effect of business capital financing utilization on MSME development and the moderating role of financial literacy.

The hypothesis testing results are presented in Table 1, showing the path coefficients, t-statistics, and p-values for each relationship tested in the model.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Pemanfaatan Pembiayaan Modal Usaha (X) -> Perkembangan UMKM (Y)	0,325	0,331	0,089	3,639	0,000
Efek Moderasi -> Perkembangan UMKM (Y)	0,028	0,029	0,040	0,712	0,477

Structural Model Results

The structural model results indicate that business capital financing utilization has a positive and significant effect on MSME development. This finding suggests that the effective use of financing contributes to improvements in business performance, such as increased revenue, asset growth, and business sustainability. Meanwhile, the interaction effect between financing utilization and financial literacy on MSME development was found to be statistically insignificant. This result indicates that financial literacy does not moderate the relationship between financing utilization and MSME development. The overall structural model is illustrated in Figure 1, which presents the path coefficients and the coefficient of determination (R^2) for MSME development.



CONCLUSION

The significant effect of business capital financing utilization on MSME development confirms that access to and effective use of financing are essential for improving MSME performance. Financing enables MSMEs to increase production capacity, expand market reach, and improve operational efficiency. This finding supports previous studies that highlight the positive contribution of financing to MSME growth.

However, the insignificant moderating effect of financial literacy suggests that financial knowledge alone does not necessarily enhance the effectiveness of financing utilization. In the context of MSMEs financed by Amarta Point in East Kota District, financial literacy may not yet be fully translated into sound financial decision-making or long-term business strategies. Several factors may explain this finding. MSME actors may prioritize short-term operational needs over strategic financial planning, or external constraints such as market access and managerial limitations may play a more dominant role in determining business development outcomes. These results indicate that financing programs should be complemented with continuous business mentoring and managerial assistance to achieve sustainable MSME development.

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