

# The Role of Government, Financial Literacy, and Inclusion on the Financial Performance of MSMEs in Malang City

Dwi Ekasari Harmadji<sup>1</sup>, Rachma Yuliana<sup>2</sup>, Rosyid Arifin<sup>3</sup>, Ayu Kemala Putri<sup>4</sup>

<sup>1,2,3,4</sup>Department Accounting, Wisnuwardhana University, Indonesia

\*Corresponding Author: [dwiekasari@wisnuwardhana.ac.id](mailto:dwiekasari@wisnuwardhana.ac.id)

## Abstract

Micro, Small, and Medium Enterprises (MSMEs) in Malang City, East Java Province, are important economic assets because they reduce unemployment and poverty. The number of MSMEs units in Malang City has increased, but their performance has decreased during the Covid-19 pandemic. This situation correlates with financial literacy, the role of Government, and financial inclusion. This study aims to determine the factors that influence the financial performance of MSMEs in Malang City during the COVID-19 pandemic, which includes financial inclusion as a moderating variable for the influence of financial literacy and the role of the Government. This research is quantitative, and data is obtained through questionnaires. Respondents to this research questionnaire were 129 MSMEs in Malang City. The results of the analysis are: first, the role of the Government has a positive effect on the financial performance of MSMEs; second, financial literacy has a positive impact on the financial performance of MSMEs; third, financial inclusion moderates the role of the Government and financial literacy on the financial performance of MSMEs in Malang City. This research contributes to collaboration on the part of Government, financial literacy, and financial inclusion to improve the financial performance of MSMEs.

**Keywords** : Financial literacy, the role of Government, financial inclusion, and MSME financial performance

**JEL Classification** : G17, M41

This is an open-access article under the [CC-BY-SA](https://creativecommons.org/licenses/by-sa/4.0/) license



## 1. INTRODUCTION

The results of the Central Statistics Agency survey in 2020, around 69.02 percent of MSMEs experienced financial difficulties during the Covid-19 pandemic. In the Complaint Report to the KemenkopUKM as of October 2020, 39.22 percent of MSMEs experienced difficulties with capital during the Covid-19 pandemic (Nugroho, 2021). The COVID-19 pandemic has created problems in the financial performance of MSMEs. MSME entrepreneurs in the city of Malang have a relatively low financial performance. This condition is related to the role of Government, financial literacy, and financial inclusion.

The role of the Government in this research is the Malang City Government through the Cooperatives and UMKM Service to strengthen the role of local MSMEs in providing government goods and services as an activity to carry out the national movement. "Proud to be Made in Indonesia". Until mid-May 2022, the value of food and drink shopping transactions through local MSMEs on online channels was recorded at Rp. 8.1 Billion. This value is the highest of the 21 regencies/cities throughout East Java in the East Java Bejo marketplace and Procurement Defense. In 2021 the City of Malang received an award from the Governor of East Java for the highest transaction value in East Java Bejo. Malang City Regional Secretary in Disseminating Food and Drink Procurement Through Local Catalogs in Malang City Hall on Tuesday (14/6/2022) requires SKPDs to continue to support local MSMEs by maximizing the electronic procurement system (shopping online). This method is applied to the provision of government goods and services by the Malang City Government by accelerating the catalog of local MSME results. The digitization of information today has many positive sides to local catalogs. From the side of MSME entrepreneurs, of course, they can get a digital space to display their products. The role of the Malang City Government is to process the provision of goods and services in an accountable manner. Of the ten targeted local catalog items, the Malang City Government has five priority items: office stationery, asphalt, materials, staples, and food and beverages, which will be completed no later than August 2022. Education of MSME entrepreneurs through coaching clinics needs to be carried out by SKPD Malang City Government. Head of the Procurement Services Division, Widjaja Saleh Putra, ensured that his party was ready to provide education and assistance for MSME entrepreneurs in Malang City. This educational clinic is in the Public Service Mall for MSMEs who want to consult. Malang City MSME entrepreneurs can utilize this opportunity because the allocation of goods and services spending for Malang City MSMEs in 2022 reaches Rp. 696 billion. This figure is equal to 46.8% of the total procurement of the Malang City Government. The minimum limit has exceeded the target and is set nationally at 40%. MSME entrepreneurs have made financial reports on managed businesses. However, it is still difficult to manage finances effectively and efficiently due to limited financial literacy (Hilmawati & Kusumaningtyas, 2021).

Financial literacy is an indicator for MSMEs to achieve maximum success in MSME financial performance. Financial literacy is an activity to increase the knowledge, skills, and confidence of MSME entrepreneurs so that they can manage their finances more efficiently and effectively (Masnila et al., 2021). Improving financial literacy can have a positive impact on improving the financial performance of MSMEs. The role of the Government also has a significant effect on the financial performance of MSMEs. The part of the Central Government and the Local Government of Malang City can support MSME entrepreneurs in making decisions for managing small businesses, including market penetration decisions and pricing, concerning the role of the Government and bank creditors (Rina Destiana, 2016).

Financial literacy and the role of the Government and supported by financial inclusion, can help achieve better MSME financial performance. Financial literacy is the individual competence of MSME entrepreneurs to make the right decisions related to their finances. Financial literacy allows MSME entrepreneurs avoid financial problems that occur as a result of financial mismanagement. Financial literacy is in the form of understanding all aspects of MSME finance which aims to make it easier for entrepreneurs to run their businesses. Financial literacy can support entrepreneurs in optimizing their financial resources appropriately to improve the financial performance of MSMEs.

Through financial literacy, MSMEs will have more advanced knowledge to motivate themselves to work and manage financial performance better (Hilmawati & Kusumaningtias, 2021). In this regard, the role of the Government, especially the Malang City Government, also has an important impact on achieving successful MSME financial performance. The City of Malang has issued Circular Letter Number 5 of 2021 regarding seven strategies for strengthening MSMEs, including the portion of procurement of goods and services through MSMEs.

Financial Services Authority Regulation (Otoritas Jasa Keuangan) No. 76/POJK.07/2016 states that the definition of financial inclusion is the provision of access to financial institutions, products, and services that match the needs and abilities of the community to improve welfare and minimize inflation. Financial inclusion can be achieved if everyone can easily enjoy financial services (Hilmawati & Kusumaningtias, 2021). The expected impact is to increase economic resilience and reduce poverty and economic gaps. Many people, including MSME entrepreneurs, can enjoy the incredible impact of this financial inclusion if the existing financial services can be felt by the wider community (Nugroho, 2021). The easier it is for people to access financial services, the faster the economic growth (Lariviere, 2008).

According to Nugroho (2021), the role of the Government through Bank Indonesia in the success of financial inclusion is (1) Financial Education in the form of information, insight, knowledge, and awareness related to financial products and services. The scope of education includes education on the variety of financial products/services, education on the risks of using financial services, education on customer protection, and education on the ability to manage finances; (2) Public Finance Facilities that are useful for increasing community economic growth in the form of allocation of subsidies and social assistance, community empowerment, and empowerment of MSMEs; (3) Mapping of Financial Information to improve the ability of MSME entrepreneurs and the community to obtain excellent and convenient services from formal financial institutions; (4) Policies and Regulations that support the Government to implement policies to increase the socialization of financial products/services and form product schemes that are suitable for the needs of the community, also create policies that support regulatory changes by minimizing the influence of uncontrolled use of the foreign exchange. The Government also provides a mechanism for distributing aid funds from banks, strengthening the legal basis for consumer protection, and making financial inclusion studies to support gradual policy directions; (5) Intermediation Facilities and Distribution Channels that are useful for increasing financial institutions' awareness of the existence of the MSME segment that has the potential to exist in the community and can increase the distribution of financial products/services (Ho et al., 2018). The initiatives include providing facilities in the form of an intermediation forum, for example, meetings of financial institutions with MSME entrepreneurs and the unbanked community, and increasing collaboration between financial institutions to increase business scale (Nguyen et al., 2021). Exploration of various products is also increased in the form of innovative services, services, and distribution channels based on the principle of proportional awareness; (6) Consumer Protection is the sixth strategy which aims to make the public feel safe in conducting transactions with financial services at financial institutions. Product transparency is initiated, so those customer complaints are resolved quickly and accurately and contribute to education for consumers/customers and to education related to the financial budget (Nugroho, 2021).

The strategy of strengthening financial inclusion through fintech companies also contributes through the involvement of fintech companies in the National Financial Inclusion Party (PIKNAS) that has been implemented. The creation of financial inclusion and financial literacy is one of the solid foundations for MSME entrepreneurs in Indonesia in terms of business. Financial inclusion can be applied if economic conditions become good, so this is a concern for MSME entrepreneurs, which has an impact on improving MSME financial performance (Hilmawati & Kusumaningtias, 2021).

Financial performance is something or an achievement achieved (Big Indonesian Dictionary, 2001). Financial performance is a process carried out with the results obtained by a company/institution in producing services or products for customers (Rina Destiana, 2016). Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small, and Medium Enterprises states that MSMEs are productive economic businesses that stand alone and are run by individuals or business entities with predetermined criteria. MSMEs are the backbone of the Indonesian economy. MSMEs have a role as an industry that has the potential to absorb the labor (Rina Destiana, 2016). Financial literacy and financial inclusion are initial capital that every MSME must know to sustain their business. Suppose MSMEs can expand according to business flows. In that case, it proves that they can manage their operations efficiently to improve the financial performance of the MSMEs (Amri & Iramani, 2018).

Based on this explanation, problems can be identified about how the role of Government and financial literacy moderated by financial inclusion can impact the financial performance of MSMEs faced with the post-covid-19 phenomenon. This study aims to examine the role of financial inclusion in mediating the influence of the part of Government and financial literacy on performance. MSME finance (Rina Destiana, 2016). The results of this study are theoretically helpful because they can be used for the development of role theory. The results of this study are practical because they imply that a good understanding of financial literacy and inclusion affects MSME entrepreneurs' ability to improve MSME financial performance (Wahyono & Hutahayan, 2021). The policy's benefits are for the Government to play an active role in fostering and assisting MSMEs, especially in financial literacy and inclusion efforts to improve MSME financial performance. The novelty of this research is the existence of financial inclusion that moderates the role of Government and financial literacy so that it impacts the financial performance of MSMEs.

The theory used as the basis for analyzing the relationship between variables in this study is the Role Theory (Wahlke, 2008) which states that the role of the Government that has obtained an authoritative mandate is to utilize existing resources in the community to carry out this task. Wahlke's (2008) role theory has two functional capabilities for political analysis. He classifies roles based on political actors, namely the part of Government through an agency or institution. He stated that political actors try to act following the rules of behavior in the government role they carry out. Wahlke (2008) also explains the role of Government through institutions behaviorally, with a role theory model that describes aspects of behavior that make activities as institutions.

## 2. HYPOTHESES DEVELOPMENT

### **The Influence of the Government's Role on MSME Financial Performance**

Role Theory (Wahlke, 2008) has a framework of thinking that an individual is a person who reacts to the behavior of others. According to the role theory concerning the relationship between the role of government and MSME entrepreneurs, it is a social relationship with a role scenario that has been responded to by the community. Micro, Small, and Medium Enterprises (MSMEs), as supporters of the National Gross Domestic Product (GDP) and Gross Regional Domestic Product (GRDP), have an essential role in Indonesia's economic recovery. The part of the Government is to commit to supporting MSMEs so that they can survive, develop, and grow after the pandemic and transformation through the National Economic Recovery Program (PEN). The role of the Government is to implement programs to encourage MSMEs, such as interest subsidies, placement of government funds at partner commercial banks to support the expansion of working capital loans and restructuring of MSME loans, guarantee for MSME working capital loans, Banpres for Productive Micro Enterprises (BPUM), Cash Assistance for PKL and Warung (BT-PKLW), and incentives for final income tax for SMEs borne by the Government. These various programs were implemented to ease the impact of the pandemic on MSMEs through financial assistance programs. The recovery of MSMEs is accelerated through the Government's role in increasing the KUR ceiling from IDR 253 trillion to IDR 285 trillion in 2021.

According to Ondang et al. (2019), The role of the Regional Government in supporting MSMEs in the Minahasa Regency has not been realized; this can be seen from the strategy and preparation of public policies so that MSME entrepreneurs experience financial obstacles. The role of the Regional Government is still limiting the determination of local level decisions so that the Regional Government has not been able to distribute capital assistance and tools that can be used by MSME entrepreneurs (Ondang et al., 2019). This has resulted in MSME entrepreneurs using their capital to survive. Another problem is the unprofessional management of MSME entrepreneurs. This is due to the lack of financial literacy and skilled personnel of MSMEs. The role of the Regional Government through the Minahasa Regency Cooperatives and SMEs Service should be through increased collaboration with the private sector to provide training to MSMEs to improve their financial performance. Research Ondang et al. (2019) use a descriptive qualitative approach.

Islami et al. (2021) prove that the problems of MSME entrepreneurs in Malang Regency include sales compliance, lack of capital, distribution obstruction, difficulty obtaining raw materials, and problematic production. The role of the Government through several regulations to improve the financial performance of MSMEs in the face of the Covid-19 pandemic (Islami et al., 2021). The role of the Malang Regency Government for MSMEs is to provide production facilities assistance; product exhibition; training, and mentoring; the promotion of MSME products is facilitated; small incubator program; business meetings; online services; technical guidance is applied to fulfill MSME human resources; MSME access is facilitated to KUR financing, and tourist attractions are re-opened (Supeni & Sari, 2011). Evidence of the Government's role in improving the financial performance of MSMEs through short-term strategic policies implemented by expanding fiscal and non-fiscal/financial stimuli and developing MSMEs through the opening of MSME digitization, simplifying bureaucratic administration processes through the establishment of a capital task force, logistics distribution assistance, MSME

corporatization, socialization of associations MSME entrepreneurs for changes in business strategies and implementation of strict health protocols (Mendoza, 2015). The role of the Government through long-term strategic policies is related to the existence of a road map for MSME expansion, a digital business platform for MSMEs, a sophisticated MSME business model being developed using the canvas business model, as well as supporting government collaboration with corporations to empower MSMEs through CSR programs (Islami et al., 2021). Based on the role theory and previous studies, the proposed hypothesis is:

H1: The role of the Government has a positive effect on the financial performance of MSMEs.

#### **The Effect of Financial Literacy on MSME Financial Performance**

The results of research by Octavina & Rita (2021) show that financial literacy and digital marketing have a significant positive effect on the financial performance of MSMEs partially and simultaneously. Financial literacy can moderate most fintech-based payment gateways. The results of research by Amri & Iramani (2018) and (Masnila et al., 2021) state that financial literacy affects the financial performance of MSMEs. The results of Arodi & Kresna (2017) research with the partial least square method analysis prove that financial literacy has a significant positive effect on the financial performance of food and beverage MSMEs in Malang, East Java. Financial literacy also has a significant positive effect on credit returns.

Research by Eresia-Eke & Raat (2013) and (Soral et al., 2006) and (Barte, 2012) state that financial literacy does not affect the financial performance of MSMEs. A research gap makes research gaps open for further investigation regarding the influence of financial literacy on the financial performance of MSMEs. Based on this explanation, the proposed hypothesis is:

H2: Financial Literacy has a positive effect on the financial performance of MSMEs.

#### **Financial Inclusion Moderates the Effect of Government Role and Financial Literacy on MSME Financial Performance**

RBV (Resource Based View) theory states that a business (including MSMEs) can have sustainable performance advantages if it gets value from resources, has valuable competencies that cannot be imitated and has no substance, and must have the expertise to absorb and implement it (Barney, 1991). This Resource Based View Theory states that tangible and intangible resources in a business/entity can support an entity in formulating strategies to achieve competitive advantage (Sari, 2020). RBV theory is the basis of this research, which describes financial inclusion and financial literacy. It is an internal company resource that has value and potential to support a business to run well and achieve a competitive advantage and financial performance that grows sustainably.

Financial inclusion eliminates various obstacles to using financial institution services by MSME entrepreneurs (Eresia-Eke & Raath, 2013). The success of financial inclusion as stated in the Financial Services Authority Regulation No. 76/POJK.07/2016, among others: (1) Strengthening public access to financial institutions, products, and services for Financial Services Entrepreneurs (PUJK); (2) Addition of financial products and services by the Financial Services Providers that are suitable for the needs of the community; (3) Increasing the ability to use financial products and services that are suitable for the needs and abilities of the community; and (4) Improving the quality of the use of financial products and

services following the needs and capabilities of the community. Based on this description, the proposed hypothesis is:

H3: Financial inclusion moderates the influence of the Government's role and financial literacy on the financial performance of MSMEs.

### 3. METHOD, DATA, AND ANALYSIS

#### Research variable.

The variable in this study is the dependent variable, namely the Financial Performance of MSMEs, and the independent variable, consisting of the Government's Role and Financial Literacy. The moderating variable is Financial Inclusion. Presentation of the conceptual framework of research in the following picture:

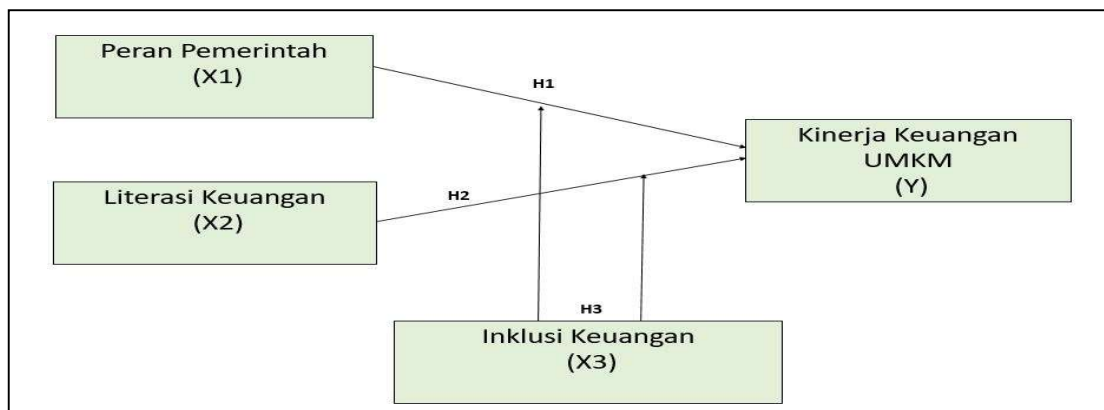


Figure 1. Research Conceptual Framework

#### Population and Sample

The population consists of several MSME fields, including Tempe chips, Dinoyo ceramics, and batik craftsmen in Malang City. Therefore we took data samples from the associations of each of these business fields. The determination of the samples by sending a survey link to a network of associations, and other forms of associations of MSME entrepreneurs. At the end of the data collection period, 129 responses were received, then analyzed with descriptive statistics.

#### Research Instruments

The research data was collected using a questionnaire from MSME owners or entrepreneurs. The question points in the questionnaire in this study are as follows:

##### 1) Role of Government (X1)

The role of the Government is the behavior carried out by the Government to carry out its obligations as a public servant for the welfare of its people. The role of Government in this study comes from the role theory presented by Diva (2009), namely:

##### a. The role of the Government as a facilitator

MSME development through the role of the Government is obliged to provide facilities for MSMEs, such as conducting training and funding (Diva, 2009).

##### b. Government's role as regulator

Making policies is the Government's role that can positively impact the expansion of MSMEs (Diva, 2009).

c. The Government's role as a catalyst

The Government's role is as a stimulant to accelerate the development of MSMEs with steps such as providing rewards for MSMEs, establishing creative communities for productive and non-consumptive purposes, and providing intellectual infrastructure for MSMEs providing revolving capital (Diva, 2009).

The role of the Government in this research is the Department of Cooperatives and SMEs Malang.

2) Financial Literacy (X2)

Four factors can impact financial literacy levels: gender, education, age, and length of business (Amri & Iramani, 2018). According to Arodi & Kresna (2017), Financial Literacy has three indicators, namely:

- a. Basic knowledge of financial management
- b. Credit management
- c. Savings and investment management

3) Financial Inclusion (Moderating)

The results of research by Hilmawati & Kusumaningtias (2021) and Maduekwe & Kamala (2016) Financial Inclusion Indicators include:

- a. Access dimensions
- b. Quality dimension
- c. Dimensions of use to measure financial inclusion.

4) MSME Financial Performance (Y)

The results of research by Mendoza (2015) and (Wahyono & Hutahayan, 2021) on Financial Performance Indicators include:

- a. an increase in the number of assets
  - b. an increase in turnover (sales volume)
  - c. an increase in operating profit
- Everything is compared to previous years.

The questionnaire is divided into two major parts, namely:

- a. Respondent's profile includes age, gender, type of business, the role of Government, average monthly income, length of business, assets, turnover, and operating profit.
- b. The questions related to the variables of the Government's role, financial literacy, financial inclusion, and MSME financial performance are closed questions as explained on a Likert scale at points 1) to 4) with the answer choices: 1 = Strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree

**Data Analysis**

The data analysis technique uses regression with moderating variables with the following equation:

**Table 1.** Regression Model For Hypothesis Testing

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_1*X_3 + \beta_5X_2*X_3 + \varepsilon.$$

H1 is accepted if one is positive and significant at = 5%.

H2 is accepted if two is positive and significant at = 5%.

H3 is accepted if 4 and 5 are significantly positive at = 5%.



## 4. RESULTS

### Descriptive Statistics

An overview of the research variables in this study which consists of the role of Government, financial literacy, financial inclusion, and MSME financial performance, is presented in the descriptive statistical table in table below:

*Table 2.* Descriptive statistics

<b>Variable</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>
Role of Government	2	5	3,81
Financial Literacy	2	5	3,63
Financial Inclusion	2	5	3,74
MSME Financial Performance	2	5	3,69

Source: Primary Data Processed (2022)

From the table above, based on the questions in the questionnaire, each variable consists of 7 questions. The minimum value for all variables is two, and the maximum is 5. The mean value is 3.81 for Government Roles, and for Financial Literacy, the mean is 3.63. Financial inclusion with a mean of 3.74 and MSME Financial Performance of 3.69.

In a more in-depth analysis of each question, for the role of Government, the answer with the highest mean (4.25) is the provision of incentives in the form of local tax relief, capital through credit with low-interest rates is essential. In the following order, the answers are that respondents think more accessible capital with revolving capital positively affects the ability to develop a business (with a mean of 3.91). The existence of training and assistance from the Department of Cooperatives and SMEs Malang City Government, which is increasingly intense, also affects the ability to manage finances and improve SMEs' financial performance (mean 3.83).

Analysis of financial literacy variables, the highest mean (3.97) is basic knowledge of financial management using daily cash books, journals, and simple ledgers, as well as notes for payroll (mean 3.83) and credit management (mean 3.73), while the management of savings and investment with a mean of 3.66. Concerning financial inclusion, the highest answer of respondents with a mean of 4.07 is the dimension of quick and flexible access. In the following order are respondents' answers that indicate the dimensions of use that support financial activities (mean 3.91), followed by answers that the quality dimension makes financial management activities more efficient (mean 3.82).

Concerning the financial performance of MSMEs, data processing results show that during 2021 business capital increased compared to the previous year (mean of 3.79). This is related to the increase in sales volume in 2021 (mean of 3.72). Further analysis shows that in 2021 there will be an increase in total assets with a mean of 3.72 and an increase in operating profit with a mean of 3.70.

### Validity and Reliability Test

Testing the instrument's validity using Pearson Correlation analysis shows that the correlation value for all variables is greater than 0.5 with a significance of 0.00, so it can be concluded that all question items in the questionnaire are valid. The data reliability test uses the Cronbach Alpha method; an instrument is declared reliable if the Cronbach Alpha value is greater than 0.7 (Ghozali, 2016). The reliability test results of this study show that

each value of the reliability coefficient is greater than 0.7 so the instrument used can be said to be reliable.

**Classic Assumption Test**

The implementation of the classical assumption test to review the assumptions used in linear regression analysis has been fulfilled. The assumption test in this study includes the data normality test, multicollinearity test, and heteroscedasticity test (Ghozali, 2016). The normality test was carried out using the One-Sample Kolmogorov-Smirnov Test. The test data is normally distributed if the resulting Asymp Sig (2-tailed) value is greater than the alpha value, which is 0.05 (5%). The results of the data normality test can be seen in table 3 below:

**Table 3.** Data Normality Test Results

Variable	Asymp Sig (2-tailed)	Description
Role of Government	0,401	Normal
Financial Literacy	0,262	Normal
Financial Inclusion	0,182	Normal
MSME Financial Performance	0,318	Normal

Source: Primary Data Processed (2022)

From the table above, all variables, namely the role of Government, financial literacy, financial inclusion, and financial performance of MSMEs appear to have an Asymp Sig value greater than 0.05 so that the data used in this study is normally distributed. The multicollinearity test intends to test whether there is a correlation between the independent variables in the regression model. A good regression model should not correlate with the independent variables. If the VIF value is more than 10 and the tolerance value is less than 0.10, then multicollinearity occurs; on the contrary, there is no multicollinearity between variables if the VIF value is less than 10 and the tolerance value is more than 0.10. The results of the multicollinearity test are in table 4 below:

**Table 4.** Multicollinearity Test Results

Variable	Collinearity Statistics		Description
	Tolerance	VIEW	
Role of Government	0,712	1,219	multicollinearity free
Financial Literacy	0,613	1,314	
Financial Inclusion	0,601	1,372	

Source: Primary Data Processed (2022)

From the table above, it can be seen that all the variables, namely the role of the Government, financial literacy, and financial inclusion have a tolerance value > 0.10 and a VIF value < 10, so that it can be declared free from multicollinearity problems.

**Hypothesis Test**

The results of multiple regression analysis testing for hypotheses 1, 2, and 3 can be seen in the table below:

Table 5. Hypothesis Testing Results

Variable	Coefficient	T		F		R <sup>2</sup>
		Value t	Sig (one tail)	Value F	Sig	
(Constant)	5,4	3,57	0,00			
X1 (Role of Government)	0,53	1,61	0,00			
X2 (Financial Literacy)	1,08	3,98	0,00			
X3 (Financial Inclusion)	0,61	0,19	0,00	16,73	0,000	0,749
X1*X3	0,42	3,23	0,00			
X2*X3	0,72	4,82	0,03			

Source: Primary Data Processed (2022)

The regression results presented in Table 5 show a relatively high R<sup>2</sup> value of = 0.749. This means that the financial performance variable can be explained by the variables of the Government's role, financial literacy, and financial inclusion of 74.90%. The remaining 25.10% is influenced by other variables that have not been studied. The results of the F test show that the F value is 16.73 with a significance level of 0.000 < 0.05, indicating that the model used in the study is feasible to use.

**Hypothesis 1 (H1): The role of the Government has a positive effect on the financial performance of SMEs**

The regression results presented in Table 5 show a coefficient of 0.53 with a t-value of 1.61 and a significance of 0.00. Hypothesis 1 is accepted that the role of the Government has a positive effect on the financial performance of MSMEs.

**Hypothesis 2 (H2): Financial Literacy Has a Positive Effect on MSME Financial Performance**

This study uses the hypothesis that financial literacy has a positive effect on the financial performance of SMEs. Based on the results of hypothesis testing in table 5, it can be seen that the coefficient value is 1.08, and the t value is 3.98, with a significance value of 0.00 < 0.05. It can be said that there is a positive and significant influence on the financial literacy variable on the financial performance of MSMEs.

**Hypothesis 3 (H3): Financial Inclusion as Moderating Variable The Effect of Government Role and Financial Literacy on MSME Financial Performance.**

The coefficient value for the X3 variable is 0.61, the t value with a significance of 0.00 < 0.05. This shows that financial inclusion affects financial performance. The regression analysis shows that the X3 variable moderates the influence of the Government's role on financial performance, with a t-value of 3.23 and a significance of 0.00 < 0.05. In addition, the X3 variable also moderates the effect of financial literacy on financial performance based on a coefficient value of 0.72 with a t-value of 4.82 and a significance of 0.03 < 0.05.

**5. DISCUSSION**

**The Effect of the Government's Role on MSME Financial Performance**

The regression results prove that there is a positive and significant influence on the Government's role in financial performance. If it is associated with the descriptive analysis

above, it shows that the highest mean for the answers to the questionnaire is the provision of stimulants in the form of local tax relief and capital through credit with low-interest rates. The following order is the answer related to revolving capital that can increase the expansion capacity of MSMEs. In the following sequence is the respondent's answer that if MSME entrepreneurs receive training and assistance from the Malang City Government Cooperatives and MSMEs Service, the more intense it will affect the ability to improve their financial performance. From the descriptive analysis, the financial performance with the highest mean is an increase in business capital and sales volume in 2021 during the covid 19 pandemic.

### **The Effect of Financial Literacy on MSME Financial Performance**

The results of the regression analysis also prove that there is a positive and significant impact of financial literacy on financial performance. Based on the descriptive analysis in the previous section, the respondents' answers with the highest average were basic knowledge of financial management by using daily cash books, journals, and simple ledgers, as well as payroll records (paying wages or similar payments to other parties) and followed by answers about credit management. This is followed by answers regarding the management of savings and investments. The respondent answers that MSME entrepreneurs understand financial literacy, which helps MSME financial management. Using a daily cash book helps MSMEs have proper records relating to business costs and simple records to record payroll and wages and complete records of business costs. The support of these records helps MSME entrepreneurs determine the introductory price as the basis for setting the selling price, thus avoiding mistakes in setting the selling price, potentially leading to losses. Sales records accompanied by selling prices are also helpful for MSME entrepreneurs to understand the income earned from sales. Good financial literacy is knowledge of simple financial recording and reporting that helps financial management improve the financial performance of MSMEs.

### **Financial Inclusion as a Moderating Variable Effect of Government Role and Financial Literacy on MSME Financial Performance**

The significant influence of the financial inclusion variable is in moderating the influence of the Government's role and financial literacy on the financial performance of MSMEs. From respondents' answers, financial inclusion is the dimension of fast and flexible access, in the form of services that provide more than one different type of communication service, fast and cost-effective, with technology systems and digital applications that are simple and easy to implement. This relates to the role of the Government; the knowledge and skills will facilitate MSME entrepreneurs in implementing financial inclusion as a support for their business. In addition, the part of the Government through training and assistance obtained by MSME entrepreneurs will affect better financial management capabilities to improve MSME financial performance during 2021.

The financial inclusion variable significantly moderates the relationship between financial literacy and the financial performance of MSMEs. Regarding financial literacy, basic knowledge of financial management with good records will benefit MSME entrepreneurs.

$X_3$ ; and  $X_1 * X_3$ ;  $X_2 * X_3$  are all significant because  $X_3$ ,  $X_1 * X_3$ , and  $X_2 * X_3$  affect  $Y$ , they are called Quasi Moderators.

## 6. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

### Conclusion

This study finds that applying financial inclusion strengthens the influence of the role of Government and financial literacy on the financial performance of MSMEs. MSMEs widely used financial inclusion, especially during the Covid-19 pandemic, is the dimension of fast and flexible access to MSME financial management, which is considered essential by MSME entrepreneurs by providing stimulants in the form of local tax relief, capital through credit with low-interest rates. Meanwhile, an essential aspect of financial literacy is basic knowledge of financial management by using a daily cash book equipped with simple journals and ledgers to improve the financial performance of MSMEs during the Covid-19 pandemic.

This study also proves that financial inclusion is a quasi-moderating variable, which has meaning as a variable that strengthens the influence of the role of Government and financial literacy on the financial performance of MSMEs. With these results, it can be concluded that financial inclusion plays an essential role in maintaining and advancing the MSME business. The results of this study become input that has theoretical benefits that confirm the role theory and RBV (Resource Based View) theory. Practical benefits for MSME entrepreneurs can improve MSME financial performance. The policy benefits the Malang City Government and parties interested in developing MSMEs, especially the Ministry of Cooperatives and MSMEs in planning development and mentoring programs for MSMEs in Indonesia.

### Limitations and suggestions

The limitation of this study is that it assumes that macroeconomic conditions such as inflation rate, Gross Regional Domestic Product (GRDP), interest rates, and so on are *ceteris paribus* during the study period. Likewise, microeconomic conditions such as consumer behavior, investor behavior, market price levels, and so on are assumed to be *ceteris paribus* during the study period.

Based on the limitations of this research, it is suggested that future research can take a similar topic by deepening other factors that can affect the financial performance of MSMEs, including macroeconomic and microeconomic conditions.

## REFERENCES

- Amri, A. F., & Iramani. (2018). *Pengaruh Literasi Keuangan Terhadap Kinerja UMKM Di Surabaya* (pp. 1-10).
- Arodi, T., & Kresna, R. (2017). *Pengaruh Literasi Keuangan Terhadap Kinerja dan Tingkat Pengembalian Kredit UMKM Makanan dan Minuman Malang Jawa Timur* (pp. 1-17).
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- Barte, R. (2012). Financial Literacy In Micro-Enterprises: The Case Of Cebu Fish Vendors. *Philippine Management Review*, 19(1), 53-65.
- Diva, G. (2009). *Mengembangkan UKM Melalui Pemberdayaan Peran Pemerintah Daerah Jakarta* (1st ed.). Bakrie School of Management Press.

- Eresia-Eke, C. E., & Raath, C. (2013). SMME Owners' financial literacy and business growth. *Mediterranean Journal of Social Sciences*, 4(13), 397–406. <https://doi.org/10.5901/mjss.2013.v4n13p397>
- Ghozali, I. (2016). *Aplikasi Analisis Multivariate dengan Program SPSS 23*. Semarang: Badan Penerbit Universitas Diponegoro.
- Hilmawati, M. R. N., & Kusumaningtias, R. (2021). Inklusi Keuangan Dan Literasi Keuangan Terhadap Kinerja dan Keberlangsungan Sektor Usaha Mikro Kecil Menengah. *Nominal: Barometer Riset Akuntansi Dan Manajemen*, 10(1), 135–152.
- Ho, K. L. P., Nguyen, C. N., Adhikari, R., Miles, M. P., & Bonney, L. (2018). Exploring market orientation, innovation, and financial performance in agricultural value chains in emerging economies. *Journal of Innovation and Knowledge*, 3(3), 154–163. <https://doi.org/10.1016/j.jik.2017.03.008>
- Islami, N. W., Supanto, F., & Soeroyo, A. (2021). Peran Pemerintah Daerah Dalam Mengembangkan UMKM Yang Terdampak Covid 19. *Jurnal Pembangunan Dan Inovasi Karta Rahardja*, 3(1).
- Lariviere, B. (2008). Linking Perceptual and Behavioral Customer Metrics to Multiperiod Customer Profitability: A Comprehensive Service-Profit Chain Application. *Journal of Service Research*, 11(1), 3–21. <https://doi.org/10.1177/1094670508319092>
- Maduekwe, C. C., & Kamala, P. (2016). Performance measurement by small and medium enterprises in Cape Metropolis, South Africa. *Problems and Perspectives in Management*, 14(2). [https://doi.org/10.21511/ppm.14\(2\).2016.05](https://doi.org/10.21511/ppm.14(2).2016.05)
- Masnila, N., Mayasari, R., Isa, I. G. T., & Hendradinata. (2021). Evaluation Of Business Process And Understanding Of Financial Literacy In Fish Cultivator Group. *International Journal of Economics, Business, and Accounting Research (IJEBAR)*, 5(4), 195–203.
- Mendoza, R. R. (2015). Financial Performance of Micro, Small, and Medium Enterprises (MSMEs) in the Philippines. *The International Journal of Business and Finance Research*, 9(4), 67–80.
- Nguyen, P. V., Huynh, H. T. N., Lam, L. N. H., Le, T. B., & Nguyen, N. H. X. (2021). The impact of entrepreneurial leadership on SMEs' performance: the mediating effects of organizational factors. *Heliyon*, 7(6), e07326. <https://doi.org/10.1016/j.heliyon.2021.e07326>
- Nugroho, M. A. S. (2021). *Peran Inklusi Keuangan Perbankan Syariah Terhadap Kinerja UMKM*. Universitas Islam Indonesia Yogyakarta.
- Octavina, L. A., & Rita, M. R. (2021). Digitalisasi UMKM, Literasi Keuangan, dan Kinerja Keuangan: Studi Pada Masa Pandemi Covid-19. *Journal of Business and Banking*, 11(1).
- Ondang, C., Singkoh, F., & Kumayas, N. (2019). Peranan Pemerintah Daerah Dalam Pemberdayaan Usaha Mikro Kecil Menengah (UMKM) Di Kabupaten Minahasa (Suatu Studi Di Dinas Koperasi Dan UKM). *Jurnal Eksekutif*, 3(3).
- Rina Destiana, S. J. (2016). Kinerja Keuangan Usaha Mikro Kecil dan Menengah di Kabupaten Cirebon Sebelum dan Sesudah Mendapatkan Pembiayaan Syariah. *Jurnal Riset Keuangan Dan Akuntansi*, 2(2), 93–103. <https://doi.org/10.25134/jrka.v2i2.458>
- Sari, N. P. (2020). Pengaruh Modal Intelektual Terhadap Kinerja Bisnis Pada UKM Di

Kabupaten Sidoarjo. *Jurnal Akuntansi Akunesa*, 8(3), 35–48.

Soral, H. B., Işcan, T. B., & Hebb, G. (2006). Fraud, banking crisis, and regulatory enforcement: Evidence from micro-level transactions data. *European Journal of Law and Economics*, 21(2), 179–197. <https://doi.org/10.1007/s10657-006-6649-y>

Supeni, R. E., & Sari, M. I. (2011). *Upaya Pemberdayaan Ekonomi Perempuan Melalui Pengembangan Manajemen Usaha Kecil*. 19–29.

Wahlke, J. (2008). *Credit and Blame*. Princeton.

Wahyono, & Hutahayan, B. (2021). The relationships between market orientation, learning orientation, financial literacy, on the knowledge competence, innovation, and performance of small and medium textile industries in Java and Bali. *Asia Pacific Management Review*, 26(1), 39–46. <https://doi.org/10.1016/j.apmr.2020.07.001>

Undang-undang Republik Indonesia Nomor 20 Tahun 2008 tentang UMKM

Kamus Besar Bahasa Indonesia, <https://kbbi.kemdikbud.go.id/entri/interoperabilitas>, diunduh tanggal 20 Maret 2020.