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# The Triple Pillar Of MSMEs Development: Financial Literacy, Inclusion, And Financial Management

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**Abstract:** This research aims to present empirical data demonstrating how financial management mediates the relationship between financial inclusion and financial literacy on the MSMEs' development. This particular type of research takes the form of explanatory research with the population of MSME actors in the environment-based tourism village of Sanankerto, Malang Regency. The study sample amounted to 125 taken through the purposive sampling method. Primary data from questionnaire findings given to respondents directly make up the utilized data. Data analysis in the form of PLS-SEM results indicates that financial management is positively impacted by financial literacy and financial inclusion and that these factors positively impact the MSMEs' development. It was also shown that financial management can mediate between financial inclusion and financial literacy in the MSME's development.
**Keywords:** Financial Literacy; Financial Inclusion; Financial Management; MSMEs Development.

**Abstrak**: Penelitian ini bertujuan untuk menyajikan data empiris yang menunjukkan bagaimana manajemen keuangan berperan sebagai mediator dalam hubungan antara inklusi keuangan dan literasi keuangan terhadap perkembangan UMKM. Jenis penelitian ini berupa penelitian eksplanatori dengan populasi pelaku UMKM di desa wisata berbasis lingkungan Sanankerto, Kabupaten Malang. Sampel penelitian berjumlah 125 yang diambil melalui metode purposive sampling. Data primer dari hasil kuesioner yang diberikan kepada responden secara langsung merupakan data yang digunakan. Analisis data dalam bentuk PLS-SEM, hasilnya menunjukkan bahwa pengelolaan keuangan dipengaruhi secara positif oleh literasi keuangan dan inklusi keuangan dan bahwa perkembangan UMKM dipengaruhi secara positif oleh faktor-faktor tersebut. Hasil penelitian juga menunjukkan bahwa manajemen keuangan dapat berperan sebagai mediator antara inklusi keuangan dan literasi keuangan dalam perkembangan UMKM.
**Kata Kunci**: Literasi Keuangan; Inklusi Keuangan; Manajemen Keuangan; Pengembangan UMKM.

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia's economic growth play an essential role (Candraningrat et al., 2021; Khouroh et al., 2020). As a tangible representation of the most important socio-economic life of the Indonesian people, MSMEs have a tremendous ability to grow and develop to improve the standard of living of many people. MSMEs are critical elements of national industries that absorb and create jobs and develop entrepreneurship while reducing poverty (Lwesya et al., 2021; Matare & Sreedhara, 2020; Singh, 2019). MSMEs are also considered capable of utilizing local potential to become economic businesses that can generate income. The progress of MSMEs in production and development is one factor that stretches the regional economy. Furthermore, MSMEs contributed 60.500 per cent of the country's GDP and 96.900 per cent of total national employment (ekon.go.id, 2022).

The incessant village or sub-district development model in 2017 by realizing a tourism-based village or sub-district based on tourism, culture, and creative economy, then each village or sub-district is encouraged to start identifying prospective tourism objects (Dewi et al., 2021). In general, tourism-based village development is known as a tourist village. Following what is stated in the Law of the Republic of Indonesia No. 1 of 2009, the purpose of this village development is so that each village at least seeks to empower its community through implementing tourism. Tourism villages certainly impact the local community by providing more social mobility to open jobs, reducing unemployment, increasing village income, developing infrastructure, and providing support services. The actual effect is the growth of MSMEs, most of which are good traders who spread around the village area. In particular, developing tourism villages aims to increase the income of MSMEs in Indonesia (Hastuti et al., 2022). The MSMEs development is indeed inseparable from the problems of both internal and external constraints. Based on conservation results in the field, several obstacles were found related to business development. One of the external constraints is the impact of COVID-19, which impacts business continuity and MSME performance (Sahoo, P., & Ashwani., 2020; Mutwiri, 2021). However, as normal conditions gradually returned, business activities began to squirm and revive.

Meanwhile, internal constraints are obstacles that have a direct relationship with MSMEs themselves, including obstacles related to financial management. Few MSMEs have gone bankrupt because they need help to handle finances properly (Risnaningsih, 2017; Sabiq Hilal Al Falih et al., 2019). One of the management problems that still needs to be solved for MSME actors is the absence of separation of personal finance from business finance (Hirawati et al., 2017).

In outline, financial management is one factor that supports the pace of MSME business development. Business actors tend to view management as an activity that runs without control. On the other hand, income that is often unbalanced and comparable to expenses impacts running out of business capital without knowing where the money is spent (Fauzar, 2022). This condition is often caused by the fact that the business finances are separate from family finances. Therefore, to maintain the continuity of business activities, knowledge, skills, and behavioural attitudes are needed to manage all business aspects properly.

Business financial management must be distinct from the financial literacy of business actors. Financial literacy in financial management is a problem in MSMEs because MSME owners ignore the importance of financial literacy, which MSME actors or prospective MSMEs must own in managing their business finances. Financial literacy is understanding the concept of finance and financial products/services to make wise financial decisions (Anshika et al., 2021). The lack of understanding of finance tends to make unwise financial decisions that can impact financial well-being. According to (Ali et al., 2018), entrepreneurs must have a fundamental understanding of accounting, costing, and budgeting for their well-being and survival in a cutthroat market.

Financial inclusion is another factor supporting the development of MSMEs, in addition to financial management and financial literacy. Financial inclusion refers to broader and fairer access to financial services, such as banking, insurance, and other financial instruments, by all levels of society, including MSMEs (Nainggolan, 2023). Financial inclusion, on the other hand, typically refers to the degree of access people have to financial services in their homes and workplaces, particularly in the case of SMEs and low-income households (Mogilevskii, R., & Asadov, S., 2018). Easy access to financial services may promote the creation of new businesses, the expansion of existing businesses, innovation, and risk mitigation, which will deepen the financial system and accelerate the development of the financial sector (Pavón Cuéllar, 2018). From a theoretical perspective, financial inclusion is a driving force towards economic growth. (Bakar & Sulong, 2018) Mentioned through the previous approach by Schumpeter has shown that financial inclusion increases economic growth. Based on the results of the 2022 National Survey on Financial Literacy and Inclusion (SNLIK) conducted by The Financial Services Authority (OJK) show that there was an increase in the financial literacy index in Indonesian people by 49.680 per cent compared to 2019, which was only 38.030 per cent. This increase was also followed by financial inclusion, which increased by 85.100 per cent compared to SNLIK in 2019, which was 79.190 per cent. These data show clearly that there is a decrease in the gap in the level of financial literacy and inclusion by 35.420 per cent compared to 2019's 38.160 per cent. Meanwhile, SNLIK's 2022 infographic, for the first time regarding gender, shows that women's financial literacy index is higher by 50.330 per cent than men's by 49.050 per cent. Both literacy and financial inclusion by gender increased in 2022 compared to 2019. Based on regional strata, the survey results show increased financial literacy and inclusion in urban and rural areas. It is known that the gap in the financial literacy index has narrowed from 6.880 per cent in 2019 to 2.100 per cent in 2022, and the gap in the financial inclusion index has also narrowed from 15.110 per cent in 2019 to 4.040 per cent in 2022. Understanding and knowledge of financial inclusion and financial literacy are very important for MSME actors. The higher the skills in managing finances and the information about financial literacy and inclusion, the more understanding of investment funding sources and financial access for SMEs (Yanti, 2019).

Problems related to financial management are one of the problems that are often found in MSMEs. This has not infrequently become the subject of discussion in previous studies examining MSMEs' performance. Similarly, financial literacy and inclusion are among the many factors that attract researchers to examine MSME actors. However, relatively limited research still uses financial management as a mediating variable in exploring the relationship between financial inclusion and financial literacy in supporting the development of MSMEs. Another novelty found in this study is that research on the development of MSMEs that focuses on financial management on the development of MSMEs in Tourism Villages still needs to be carried out.

Based on the explanation conveyed above, for the development of MSMEs, it is considered necessary to pay attention to financial literacy, financial inclusion, and financial management to maintain the continuity of managed MSMEs that can support the economy and regional development so that this study aims to examine further financial literacy, financial inclusion, financial management, and the development of MSMEs in business actors in villages, especially in environment-based Tourism Villages.

## THEORETICAL REVIEW

The Theory of Planned Behavior was initially proposed by (Ajzen, 1985), who stated that most human behaviour results from a person's intention to perform a particular behaviour and ability to make informed decisions (She et al., 2023). The person's interest influences a person's behaviour in acting in behaviour. The interest is influenced by the person's attitude to behaviour, behaviour influenced by subjective norms, and perceived behavioural control. The theory of planned behaviour (TPB) is suitable for explaining the behaviour that occurs in the business world because it explains various behaviours related to planning, including entrepreneurship. It is mentioned (Tornikoski & Maalaoui, 2019) that the Theory of Planned Behavior (TPB) explains the formation of entrepreneurial intentions through three antecedents, namely Attitude towards the behaviour, Subjective Norm, and Perceived Behaviour Control.

Financial management is closely related to financial literacy. The theoretical approach to the relationship of financial literacy to financial management is based on the theory of *planned behaviour, which states* that knowledge and understanding of finance will shape a person's behaviour in managing business finances. Understanding fundamental financial concepts and being able to do basic calculations are considered financial literacy (Lusardi, 2019). For MSMEs, financial literacy can affect a person's perspective on financial matters, how to make decisions strategically, and how well they run their business or business (Nurjanah et al., 2022). This is in line with what was conveyed by The Indonesian Financial Services Authority (OJK) in the 2022 Financial Literacy and Inclusion Survey, which indicates that financial literacy may impact an individual's mindset and conduct, hence enhancing the calibre of financial decision-making and financial management in the pursuit of prosperity. Financial literacy is the ability and knowledge of individuals to understand financial concepts and make the right financial decisions. The lack of financial literacy that is owned causes inadequate financial choices and impacts one's financial well-being. (Susan, 2020) states that financial literacy includes understanding financial knowledge related to managing financial resources. It was mentioned by (Dahrani et al., 2020 Heryanto & Leng, 2022 and Prasetyo et al., 2023) that financial literacy affects financial management.

**H1:** Financial literacy has a positive effect on financial management.

Another factor that can support financial management besides financial literacy is financial inclusion. To support business performance, especially related to funding or business capital, business actors need to understand and know about financial inclusion. Financial inclusion refers explicitly to the idea that all people may access and benefit from a variety of financial services (Wang & Guan, 2017). The supply of simple and affordable financial services to those not previously received financial services is referred to as financial inclusion (Alkhawaldeh et al., 2023). To support business performance, especially related to funding or business capital, business actors need to understand and know about financial inclusion. The planned behaviour theory by Ajzen (Bosnjak et al., 2020) states that business actors' intentions and attitudes will be formed when using and utilizing financial products and services for business management to obtain funds for their business operations. Previous research indicates that financial inclusion positively affects financial management (Dahrani et al., 2020; Pinem & Mardiatmi, 2021; Rahayu & Sriyono, 2023).

**H2:** Financial Inclusion has a positive effect on Financial Management.

One of the business development indicators is financial indicators, including assets, capital structure, and turnover (Surepno & Sa'diyah, 2022). There is an increase in assets, capital, and turnover in business development, and for its management, business actors need to have financial literacy skills. For this reason, business actors must be capable of making the right decisions in certain situations related to business finance to develop their business. In the neo-classical growth theory presented by Solow-Swan in 1950, one of the factors that can increase economic growth is human resources. Human resources in MSMEs contribute to operational activities to achieve goals (Febrian & Kristianti, 2020). (Eniola & Entebang, 2017) they stated that resources that have high literacy can improve performance and growth for MSMEs. Research (Geriadi et al., 2021; Iriobe, O., & Iriobe, G., 2017) stated that financial literacy affects the MSME's development, as well (Idawati & Pratama, 2020; Rusliana et al., 2023) determined that financial literacy significantly affects MSMEs' performance and sustainability.

**H3:** Financial Literacy has a positive effect on the MSME's Development.

Financial inclusion refers to the accessibility of financial services to various institutions, products, and finance services that can be easily, comfortably, and safely achieved by all levels of society by the needs and capabilities of the community to achieve prosperity. From a theoretical perspective, financial inclusion is a driving force toward economic growth. Mentions by (Bakar & Sulong, 2018), through the previous approach (Schumpeter, 2017) state that financial inclusion increases economic growth. A high level of financial inclusion can slowly positively impact the economy, including spurring the MSME's growth (Adriani & Wiksuana, 2018). The effect of financial inclusion on the MSMEs development is also based on research (Hamzah & Suhendar, 2020; Iriobe, O. & Iriobe, G., 2017; Kurniawan & Gitayuda, 2021; Okafor et al., 2022).

**H4:** Financial inclusion positively affects the development of an MSME.

Financial management includes all activities related to acquiring, financing, and managing assets with several general objectives. The entire process is carried out to obtain company revenue by minimizing costs and using and allocating efficient funds that can maximize company value (Suindari & Juniariani, 2020). In business development, all activities in financial management need to be implemented to achieve business goals. Financial management is a process of activities related to acquiring, funding, managing, and using financial assets. Understanding sound financial management and business development principles will assist entrepreneurs in making wise decisions regarding their business operations, leading to sound financial management and business development practices (Sabiq Hilal Al Falih et al., 2019). Based on the Theory of Planned Behavior, the formation of attitudes, behaviour, and self-control in financial management impacts decision-making and actions or steps taken. Sound financial management can help business actors optimize every potential activity and obtain business results that align with research (Matare & Sreedhara, 2020; Umami, 2019), which indicates that financial management positively affects the development of MSMEs.

**H5:** Financial Management has a positive effect on the MSME's Development.

As mentioned by (Adhim et al., 2023), increased financial literacy and inclusion can grow or develop MSMEs. MSME actors are more adept at comprehending fundamental financial concepts, planning and managing their finances more effectively, and being shielded from dishonest practices and unethical financial market operations. Financial literacy is one of the factors that can affect financial management. The better financial literacy a person or businessman has in business actors, the more organized his business or business will be (Khasanah & Irawati, 2022). Business actors with financial literacy skills can do Well-managed business financial management, as shown by making the right financial decisions. This can also minimize business financial losses, thus supporting the business's development.

**H6:** Financial Literacy positively affects the MSME's Development through Financial Management.

In (Lakuma et al., 2019; Okafor et al., 2022) view financial inclusion as the capacity of an individual to have access to fundamental financial services such as savings, loans, and insurance that are designed in a way that is quite convenient, reliable, and flexible. Financial inclusion is important for business actors in accessing business capital when running a business. Financial inclusion will enable MSMEs to obtain more reasonably priced financial services, enhancing their performance by providing enough capital (Ratnawati, 2020). Access to funding for business actors also motivates them to appropriately manage their finances by properly preparing financial budgets (Ejelonu & Okafor, 2022). Ease of access to business capital and financial management support can enable businesses to develop optimally.

**H7:** Financial inclusion positively affects the development of MSME's through financial management.

However, several gaps have been found in previous studies related to the effect between financial literacy and financial management in research (Estuti, E. P., Rosyada, I., & Faidah, 2021; Amelia, 2022; Prasetyo et al., 2023) indicate that financial management is not affected by financial literacy. As mentioned in (Anisyah et al., 2021; Kusumaningrum et al., 2023), the relationship between financial management and inclusion is not significantly influenced. Research (Maharani & Rita, 2020) states that financial literacy does not affect the development of MSMEs.

Based on the phenomena and research gaps that have been described, it is necessary to study further financial literacy, financial inclusion, financial management, and the MSME's development in business actors, which in this study was carried out a case study in the environment-based Tourism Village Sanankerto, Malang Regency, East Java. This research aims to ascertain how exogenous variables, namely financial literacy and financial inclusion, affect endogenous variables, namely the MSME's development, through mediating variables of financial management used in this study. The research model for the research that was brought up in this study is as follows:

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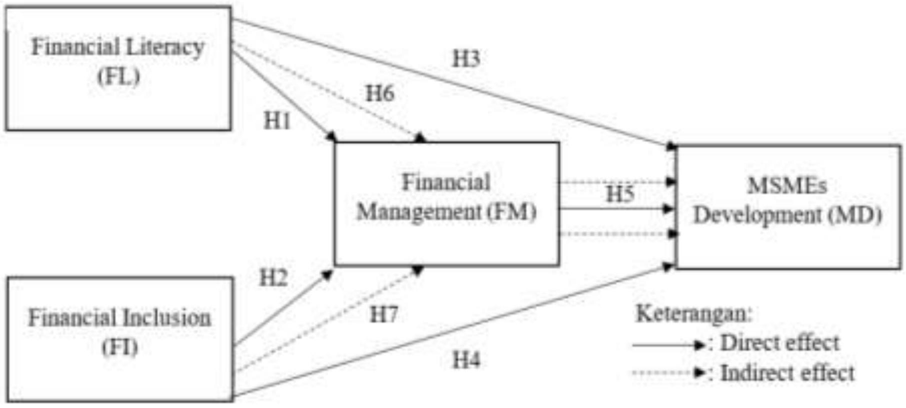


**Figure 1**. Research Model

## METHODS

This research used quantitative approaches to test hypotheses, establish facts, demonstrate correlations, influences, and comparisons between variables, and provide statistical explanations for understanding and projecting the outcomes (Siregar, 2017). The research method used is the explanatory research method, which provides explanations and tests hypotheses between one variable and another.

**Table 1** contains the variables and indicators used in this study. As the first exogenous variable, financial literacy uses references from (Anshika et al., 2021; Jannah, M., & Setiyono W. P., 2021) with four indicators. The second exogenous variable, Financial Inclusion, uses references from (Mercado, R.,& Pontines, V., 2023; Chandrarin et al., 2018; Yanti, 2019) with four indicators. Financial Management as a mediation variable uses references from (Santiara &; Sinarwati, 2023; and Main et al., 2023) with four indicators. Furthermore, MSMEs development as an endogenous variable uses references from (Febrian &; Kristianti, 2020; and Surepno &; Sa'diyah, 2022) with three indicators.

**Table 1.** Research variables

| Variable | Indicators | Questionnaire Items | Reference |
|---|---|---|---|
| Financial literacy (FL) | 1. Basic knowledge of financial management | a. Know how to manage finances<br>b. Know the benefits of financial management.<br>c. Know the benefits of budgeting. | (Anshika et al., 2021; Jannah, M., & Setiyono, 2021) |
| | 2. Credit management knowledge | d. Understand the aspects of credit-taking<br>e. Understanding interest rate calculation<br>f. Understand the risks of taking credit. | |
| | 3. Knowledge of deposit and investment management | g. Understand the risks of taking credit.<br>h. Understanding the types of savings<br>i. Understand the types of investments. | |
| | 4. Risk management | j. Understand investment risks | |

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| Variable | Indicators | Questionnaire Items | Reference |
|---|---|---|---|
| | knowledge | k. Understand insurance benefits<br>l. Understand the consideration factors for choosing insurance. | |
| Financial Inclusion (FI) | 1. Access dimensions | a. Near the location of the financial institution<br>b. The location of the financial institution is easy to reach<br>c. Financial institutions are Internet accessible. | (Mercado, R., & Pontines, V., 2023; Chandrarin et al., 2018; Yanti, 2019) |
| | 2. Dimensions of use | d. Use of financial services in the form of business capital<br>e. Use of financial services according to business needs<br>f. Facilitate financial transaction activities. | |
| | 3. Quality dimensions | g. Fast service<br>h. Service appropriately<br>i. Quality of financial services | |
| | 4. Dimensions of well-being | j. Complete availability of financial products<br>k. Availability of suitable financial products<br>l. Feeling helped by financial services. | |
| Financial Management (FM) | 1. Financial planning | a. Drawing up a financial plan<br>b. Budgeting<br>c. Draw up unexpected budgets. | (Santiara & Sinarwati, 2023; Utama et al., 2023) |
| | 2. Financing | d. Pay bills<br>e. Pay credit | |
| | 3. Financial recording and reporting | f. Record business financial income and expenditure<br>g. Record accounts payable and accounts receivable<br>h. Create financial statements | |
| | 4. Financial control | i. Prioritizing primary needs<br>j. Thinking about credit risk<br>k. Be careful in taking credit. | |
| MSMEs Development (MD) | 1. Financial indicators | a. Asset improvement (business equipment and equipment)<br>b. Increase in working capital.<br>c. Increase in venture income | (Febrian & Kristianti, 2020; Surepno & Sa'diyah, 2022) |
| | 2. Human resource indicators | d. Improvement of skills and knowledge<br>e. Improved service capability<br>f. Increase in the number of workforces. | |
| | 3. Marketing indicators | g. Increase in revenue and sales volume<br>h. Increase in the number of consumers. | |

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| Variable | Indicators | Questionnaire Items | Reference |
|---|---|---|---|
| | | i. Conduct promotional activities | |

Source: Data processed by researchers, 2023

The research's analytical unit is MSME actors in Sanankerto Village, Malang Regency, East Java. Nonprobability sampling is the sampling technique that is utilized in this research by using the purposive sampling method, where researchers determine specific considerations or criteria, including (1) business actors have been running a minimum business for three years, (2) business actors act as business financial managers and (3) businesses have collaborated with financial institutions. So, from these criteria, as many as 125 MSME actors were obtained as samples for this study.

Partial least squares structural equation modelling/PLS-SEM is a technique for data analysis with the support of SmartPLS v.3.2.9 software. An outer model analysis is carried out to ensure that research instruments can be used (valid and reliable) as measurements. There are three instrument test criteria for assessing the outer model which refers to (Hair et al., 2021), namely: (1) Convergent Validity is the value of loading factors on latent variables with indicators with expected values over zero point seven (2) Discriminant validity by comparing the intended construct value must be greater than other construct values and can also use the Average Variance Extracted (AVE) value which is the average value of variance which is at least more than equal to zero point five; (3) Composite Reliability where a construct is said to be reliable if the value of composite reliability is above zero point seven. The next stage is to perform an inner model analysis to evaluate the relationships between constructs. By looking at the path coefficients that describe the strength of the relationship between constructs. The t-test or critical ratio acquired from the bootstrapping method evaluates the path coefficient's significance.

# RESULTS

**Respondent Profile.** As indicated in **Table 2**, the demographic data attributes of the research respondents are gender, age, level of education, and business type.

**Table 2.** Demographic Respondents

| Attributes of Demographic | Category | Frequency | Percentage |
|---|---|---|---|
| Gender | Man | 49 | 39.200 |
| | Woman | 76 | 60.800 |
| Age | 20 to 25 | 11 | 8.800 |
| | 26 to 35 | 18 | 14.400 |
| | 36 to 45 | 59 | 47.200 |
| | More than 45 | 37 | 29.600 |
| Education Level | Primary school | 85 | 68.000 |
| | Junior High School | 24 | 19.200 |
| | High School | 16 | 12.800 |
| Business Type | Merchant | 87 | 69.600 |
| | Farmer | 27 | 21.600 |

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| Attributes of Demographic | Category | Frequency | Percentage |
|---|---|---|---|
| | Home Industry | 11 | 8.800 |

Source: Primary Data Processed, 2023

According to **Table 2**, out of the 125 respondents who are MSME actors in Sanankerto Village, the dominant is female; the majority's age range is between 36 and 45 years old; the majority have only completed primary school; and most of their business type is the merchant.

**Outer Model Evaluation.** At the outer model analysis stage, it shows the quality of data measurements and confirms the model's validity and reliability. **Table 3** contains the results of the outer model analysis for validity tests consisting of convergent validity by looking at the loading factor value on latent variables with indicators with expected values of more than 0.700. The next validity test is discriminant validity by looking at the Average Variance Extracted (AVE ) value; each construct's amount of AVE value to have discriminant validity a good is greater than 0.500.

**Table 3.** Outer Model Results

| Latent Construct | Items | Loading factor | AVE | Composite Reliability |
|---|---|---|---|---|
| Financial Literacy | FL1 | 0.854 | | |
| | FL2 | 0.904 | | |
| | FL3 | 0.891 | | |
| | FL4 | 0.871 | | |
| | FL5 | 0.862 | | |
| | FL6 | 0.883 | 0.736 | 0.971 |
| | FL7 | 0.894 | | |
| | FL8 | 0.877 | | |
| | FL9 | 0.844 | | |
| | FL10 | 0.816 | | |
| | FL11 | 0.804 | | |
| | FL12 | 0.782 | | |
| | FI1 | 0.817 | | |
| | FI2 | 0.831 | | |
| | FI3 | 0.761 | | |
| | FI4 | 0.812 | | |
| | FI 5 | 0.835 | | |
| Financial Inclusion | FI6 | 0.785 | 0.707 | 0.967 |
| | FI7 | 0.867 | | |
| | FI8 | 0.905 | | |
| | FI9 | 0.895 | | |
| | FI10 | 0.863 | | |
| | FI11 | 0.895 | | |
| | FI12 | 0.814 | | |
| | FM1 | 0.804 | | |
| | FM2 | 0.820 | | |
| | FM3 | 0.800 | | |
| Financial Management | FM4 | 0.820 | 0.648 | 0.953 |
| | FM5 | 0.802 | | |
| | FM6 | 0.773 | | |
| | FM7 | 0.848 | | |
| | FM8 | 0.822 | | |

| Latent Construct | Items | Loading factor | AVE | Composite Reliability |
|---|---|---|---|---|
| The MSMEs Development | FM9 | 0.827 | 0.646 | 0.943 |
| | FM10 | 0.784 | | |
| | FM11 | 0.749 | | |
| | MD1 | 0.795 | | |
| | MD2 | 0.812 | | |
| | MD3 | 0.807 | | |
| | MD4 | 0.758 | | |
| | MD5 | 0.847 | | |
| | MD6 | 0.817 | | |
| | MD7 | 0.788 | | |
| | MD8 | 0.832 | | |
| | MD9 | 0.775 | | |

Source: Data processing with SmartPLS v.3.2.9 software, 2023

The overall statement item is over zero point seven, and each construct has values for the Average Variance Extracted (AVE) value over zero point five, indicating convergent validity depending on the outer model outcomes in **Table 3**. These findings support the validity of the instrument. The outcomes of composite reliability show that it has a value of over zero point seven, which can mean that all constructs have high reliability.

**Inner Model Evalution.** The structural model analysis step, known as the inner model, comprises the R-square ($R^2$), effect test Size F-square ($f^2$), and Predictive Relevance ($Q^2$).

**Table 4** contains the results of $R^2$ analysis in this study. $R^2$ analysis assesses how much influence a particular exogenous latent variable has on endogenous latent variables. The classification of $R^2$ values according to (Hair et al., 2021), namely Strong, moderate, and weak models, are indicated by values of 0.670, 0.330, and 0.190.

**Table 4. $R^2$ Analysis**

| Variabel Laten Endogen | Test Results | Results classification |
|---|---|---|
| Financial Management MSMEs | 0.508 | Moderate |
| Development | 0.393 | Moderate |

Source: Data processing with SmartPLS v.3.2.9 software

The results of the $R^2$ analysis shown in **Table 4** explain that the $R^2$ value for Financial Management is 0.508. The $R^2$ value shows that Financial Literacy and Financial Inclusion variables can influence 50.800 per cent of financial management variables, while other variables outside those studied influence the remaining 49.200 per cent. The value of 0.508 is included in the moderate category.

Meanwhile, the $R^2$ value for developing MSMEs was obtained at 0.393. The $R^2$ value shows that Financial Literacy, Financial Inclusion, and financial management variables can influence 39.300 per cent of MSME development variables. Other variables outside this study influence the remaining 60.700 per cent. An $R^2$ value of 0.393 is included in the moderate category.

**Table 5** contains the results of the $f^2$ analysis used to determine the model's goodness. According to (Hair et al., 2021), the interpretation of $f^2$ values is divided into several classifications, namely Small, medium, and strong, which are indicated by values 0.020, 0.150, and 0.350.

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**Table 5.** Analysis of Effect Size $f^2$

| Exogenous Latent Variables | Financial Management | Development of MSMEs |
|---|---|---|
| Financial Literacy | 0.212 | 0.054 |
| Financial Inclusion | 0.245 | 0.035 |
| Financial Management | | 0.064 |

Source: Data processing with SmartPLS v.3.2.9 software

The $f^2$ analysis in **Table 5** for exogenous latent variables of financial literacy and financial inclusion on overall financial management is greater than or equal to zero point fifteen, and smaller than zero point thirty-five is categorized as moderate. Meanwhile, exogenous latent variables of financial literacy, financial inclusion, and financial management of the MSME development are greater than or equal to zero point zero two, and smaller than zero point fifteen are categorized as small or weak.

**Table 6** contains the Q2 (*predictive relevance*) results analysis, which measures how well the model produces observed values and parameter estimates. A $Q^2$ value greater than zero indicates the model has predictive significance, while less than zero indicates the model has no predictive significance (Hair et al., 2021).

**Table 6.** Predictive Relevance $Q^2$

| Endogenous latent variables | $Q^2$ test results | Interpretation |
|---|---|---|
| Financial Management | 0.330 | the model has predictive relevance |
| MSMEs Development | 0.258 | the model has predictive relevance |

Source: Data processing with SmartPLS v.3.2.9 software

**Hypothesis Test.** Research hypothesis testing uses the significance of estimated parameters to evaluate the relationship between research variables directly or indirectly or through mediation variables. Test the hypothesis using the bootstrapping method in Partial Least Square (PLS). The decision to accept or reject a hypothesis is based on the significance value (P Value) and the value of the T-table. The criteria for a hypothesis to be accepted is if the p-value is over zero point five and the t-test/critical ratio is more than one point ninety-six (Hair et al., 2021).

**Table 7** contains the significance level of direct relationships between variables used in this study. The first hypothesis states that financial literacy affects financial management with p values of 0.000 less than 0.050 and t statistics of 6.274 more than 1.960. The second hypothesis shows that financial inclusion affects financial management with p values of 0.000 less than 0.050 and t statistics of 5.043 more than 1.960. The third hypothesis shows that financial literacy results impact the development of MSMEs with p values of 0.027 less than 0.050 and t statistics of 2.220 more than 1.960. Similarly, the fourth hypothesis shows that financial inclusion affects the development of MSMEs with p values of 0.031 less than 0.050 and t statistics of 2.167 more than 1.960. Furthermore, the fifth hypothesis shows that financial management affects the development of MSMEs with p values of 0.005 less than 0.050 and t statistics of 2.798 more than 1.960.

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**Table 7.** The Hypothesis Results

| Hypotheses | Variable Relationships | Original Sample (O) | t-test | p-value |
|---|---|---|---|---|
| H1 | Financial literacy → Financial Management | 0.420 | 6.274 | 0.000 |
| H2 | Financial inclusion → Financial Management | 0.390 | 5.043 | 0.000 |
| H3 | Financial Literacy → MSMEs Development | 0.224 | 2.220 | 0.027 |
| H4 | Financial Inclusion → MSMEs Development | 0.238 | 2.167 | 0.031 |
| H5 | Financial Management → MSMEs Development | 0.278 | 2.798 | 0.005 |

Source: Data processing with SmartPLS v.3.2.9 software

**Table 8** contains the significance level of the indirect relationship between exogenous and endogenous variables through the mediating variables used in this study. In this study, financial management mediates the relationship between financial literacy and the development of MSMEs. The results of the sixth hypothesis test showed that the relationship between financial literacy variables and the development of MSMEs through financial management showed an indirect path coefficient value of 0.116 with a statistical t-value of 2.451. The calculated t-value is greater than the t-table (1.960), and the p-value is 0.015 less than 0.050. This result means that financial management has a significant influence in bridging financial literacy to the development of MSMEs. It can be interpreted that the sixth hypothesis is accepted.

Furthermore, in the seventh hypothesis, it is known that financial management mediates the relationship between financial inclusion and the development of MSMEs. The results of testing the seventh hypothesis show that the relationship between financial inclusion variables and the development of MSMEs through financial management shows an indirect path coefficient value of 0.108 with a statistical t-value of 2.414. The calculated t-value is greater than the t-table (1.960), and the p-value is 0.016 less than 0.050. This result means that financial management has a significant influence in bridging financial inclusion to the development of MSMEs. So, the seventh hypothesis is accepted.

**Table 8.** The Specific Indirect Effect

| Hypotheses | Variable Relationships | Original Sample (O) | t-test | p-value |
|---|---|---|---|---|
| H6 | Financial literacy → Financial Management → MSMEs Development | 0.116 | 2.451 | 0.015 |
| H7 | Financial Inclusion → Financial Management → MSMEs Development | 0.108 | 2.414 | 0.016 |

Source: Data processing with SmartPLS v.3.2.9 software

## DISCUSSION

**The effect of financial literacy on financial management**. The findings of the hypothesis test show that financial literacy has a positive effect on financial management.

According to the study, financial literacy positively influences financial management, implying that increasing financial literacy will improve financial management. In other words, the better the financial literacy of MSME actors, the better they will manage their business finances. Business actors in this tourist village understand essential financial management, reflected in their careful attitude when making financial expenditures. However, it is expected to increase understanding of risk management, especially related to insurance, considering that some business actors need more careful experience in choosing the right insurance, which affects the finances of the business being run.

This finding emphasizes the importance of financial literacy for business actors in managing their finances. Understanding risk management owned by business actors in managing their finances can minimize business losses. Increasing knowledge and skills about financial management to realize future goals will help MSMEs understand basic financial concepts, make wise decisions, and manage risks better. Knowledge of financial management, called literacy, will provide MSMEs with an understanding of financial risks and management of income and expenditure to create more stable finances. Good financial management resulting from increased financial literacy will prevent financial problems and make wiser financial decisions. (Nurjanah et al., 2022) The literacy of a business actor, such as financial and investment knowledge, improves the financial management behaviour of the business. This will trigger reduced bankruptcy in business actors who utilize and increase financial literacy in their businesses. The findings of this study provide support research done by (Dahrani et al., 2020; Heryanto & Leng, 2022; Prasetyo et al., 2023); they explained how financial management in each of the MSMEs they examined was impacted by financial literacy in their research.

**The effect of financial inclusion on financial management**. The hypothesis from this study declares that financial inclusion has a positive effect on financial management. Based on the hypothesis test results, the second hypothesis was accepted. This implies that financial inclusion will increase business actors' ability to manage their finances. Financial inclusion can make access to safe and reliable capital needs easier for business actors. Within the scope of tourism villages, increasing access to financial instruments can help communities deal with liquidity problems and enable communities to make valuable investments. Business actors with responsible financial management behaviour tend to use existing or owned sources of funds effectively to run their businesses. Through effortless access to finance, MSMEs can make more informed financial decisions.

The findings of this study can be considered for local governments in guiding business actors to get convenience in obtaining safe and reliable business funding. Financial inclusion is an approach that makes financial management more accessible and understandable and benefits MSME actors. Financial inclusion will improve financial management because financial services become more accessible, and financial-based discrimination can be minimized. Financial inclusion also helps MSMEs make more informed financial decisions to increase revenue by managing the resulting operating profits. These results support the research (Dahrani et al., 2020; Sari et al., 2021; Setyawan et al., 2022; Rahayu & Sriyono, 2023) which states that financial inclusion affects financial management. With increasing financial inclusion, MSME actors can access various financial products and services, improving their ability to manage expenses and increase savings and investment.

**The effect of financial literacy on the MSMEs' development.** According to research findings, financial literacy positively impacts the development of MSMEs. The third

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hypothesis was accepted based on the findings of the hypothesis test, which can be interpreted as the fact that financial literacy can affect MSMEs' development positively and significantly. This implies that the more financial literacy they have, the more the ability of business actors to develop their business will increase. Increasing financial literacy can support business actors in their ability to make decisions related to finance in the right way, including identifying and managing financial risks, understanding financial products, controlling credit and debt, and managing expenses, which can help MSMEs develop their risk management capabilities.

The results of this research can be used as a model for a business to improve its performance in developing its business. Financial literacy helps provide knowledge and skills in managing the finances of a business to be more effective and efficient in managing cash flow, monitoring the company's financial health, and identifying potential financial problems before they become serious so that they can help the development of MSMEs. Financial literacy can help MSMEs focus more on long-term planning, allowing them to make more informed decisions to improve their business competitiveness. In addition, financial literacy will also provide knowledge and skills for MSMEs to control costs and manage business-related risks so that MSMEs become more developed. The findings of this research support the research (Geriadi et al., 2021; Iriobe, O., & Iriobe, G., 2017; Surepno & Sa'diyah, 2022) where financial literacy affects the development of MSMEs. The more an MSME actor increases his financial knowledge, the better it will be in developing his business.

**The effect of financial inclusion on the MSME's development**. Based on the results of hypothesis testing, it is stated that financial inclusion has a positive effect on the MSME's development. From the outcomes of the hypothesis test, it was found that this hypothesis was accepted, namely that financial inclusion affects the MSME's development positively and significantly. This implies that the more financial inclusion increases, the more it increases the MSME's development. saFacilitated access to finance through financial inclusion makes it easier for MSMEs to obtain capital in the form of loans and funds to develop their businesses.

This study's results imply that the financial inclusion concept, which aims to enable everyone's involvement in the financial system by reducing or removing existing barriers, will provide opportunities for MSMEs to further develop through access to funding sources. This ease of access to funding sources will increase productivity and efficiency, expand market reach, and increase profit margins, encouraging MSMEs to be more competitive. Financial inclusion can also strengthen the capital structure for MSMEs, leading them to develop innovative and growing businesses and reduce transaction costs. It is explained (by Geriadi et al., 2021) that with easy access to finance, the business is likely to experience growth because, after all, business growth means the need to increase sales value supported by high inventory ownership. High inventory ownership requires a sufficient supply of funds. This easy access can also prevent business actors from being trapped in illegal financial services providers that can harm their business that way; they can choose financial services that are safe and for their business needs. The findings of this research support the study by (Hamzah & Suhendar, 2020; Iriobe, O., & Iriobe G. 2017), who stated that financial inclusion affects the MSME's development. Other studies by (Kurniawan & Gitayuda, 2021; Okafor et al., 2022) also stated that there is an effect between financial inclusion on the MSME's development.

**The effect of financial management on the MSME's development**. The findings of the hypothesis test declare that financial management has a positive effect on the MSME's development. From the hypothesis test results, it was found that this hypothesis was accepted, which means that financial management positively affects the MSME's development. This implies that the better the financial management of business actors in managing their business, the more business development will increase. The results of this hypothesis support research conducted by (Matare & Sreedhara, 2020; Umami, 2019). A critical aspect of the development of MSMEs is good financial management. Effective financial management will increase revenue and increase business development opportunities. Effective financial management will help MSMEs manage financial risks, increase revenue, and plan to spend more wisely to achieve business success. In other words, financial management is a top priority for MSME players to be able to develop their businesses to be more significant.

Another finding in this study is that there is a simple thought from business actors with the type of business as traders in Tourism Villages: if their merchandise runs out, it is a sign that they have profited. The better a business actor is at carrying out management functions in the business he manages, the more it impacts the development of his business. With the increasing growth of a business, the right financial decisions are needed in managing business finances. Good financial management can encourage business operations and performance that affect the growth of MSMEs. The better a business actor is at carrying out management functions in the business he manages, the better it will have a good impact on the development of his business. In line with research (Umami, 2019), financial management is one of the main pillars that become the foundation for a business. To be a good business, it has good management as well. A business needs good management to ensure the sustainability of the development of the business is maintained. Financial management consists of various activities based on their functions, which, in essence, strive to ensure that the business activities carried out can achieve their goals economically, which can be measured based on profit, planning business funding, allocating business capital appropriately, and other financial management activities.

**The effect of financial literacy on the MSME's development through financial management**. Based on the research results of hypothesis tests, financial literacy positively affects the development of MSMEs through financial management. These results showed that financial management can mediate financial literacy in the MSMEs' development, as shown by the significance level of the hypothesis test, which is more than zero point zero five. This result illustrated that having high financial literacy will affect the capabilities of MSME actors in business financial management. Qualified financial management capabilities will improve the ability of business actors to carry out business activities effectively and efficiently. Because financial knowledge, especially about financial management procedures, will be able to support business actors in determining the right financial decisions for their business. This can also have implications for maintaining and developing business competition in the future and for business development.

The results of this study imply that financial literacy is one of the factors that can determine the success of financial management in MSMEs. Increasing financial literacy will help MSMEs manage finances, make better financial decisions, and minimize financial risks to improve financial performance, increasing investor confidence. Increasing investor confidence will encourage MSMEs to develop further and improve their business. It is

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aligned with the theory of planned behaviour (Ajzen, 1991) and is related to attitudes toward behaviour, which refers to the extent to which an individual has an unfavourable evaluation or assessment of his behaviour. This attitude shows how a business actor takes steps to manage or run a business supported by his knowledge or literacy. Therefore, the more the view of business actors on the results of the steps taken to run a business, the stronger their intention and enthusiasm to continue running the business. With qualified financial management capabilities, it will impact business development.

**The effect of financial inclusion on the MSME's development through financial management**. According to the study, financial inclusion considerably positively affects the MSME's development through financial management. They are considering what the hypothesis test revealed, stating that the hypothesis is accepted, which is shown through the level of significance of the hypothesis test more than zero point zero five, which can be interpreted as significantly able to mediate financial inclusion in the MSMEs development. Financial inclusion enables various parties to access and use financial products and services formal financial institutions offer. This can help MSMEs to improve financial management, increase efficiency, and increase access to capital. The ease of MSMEs in accessing available financial products and services can improve economic performance, improve financial management, and encourage business development. An MSME actor who utilizes financial inclusion well can support business financial management. So, with qualified financial management, it will impact business development. The ease of accessing financial services in the form of safe, appropriate, affordable capital and following business needs can support improving the performance of MSMEs to develop and be sustainable. They are supported by business financial management skills to facilitate loan repayment and develop their business capital to increase business profits and see opportunities for business development.

The results of this study can provide recommendations for the government to increase the capacity and allocation of funding for MSMEs. In line with research (Chandrarin et al., 2018), SME sector financing will increase SME production capacity and drive the real sector, which leads to increased economic growth. Financial inclusion can support business operations. Judging from several indicators forming financial inclusion, it is known that ease of access to banking is one of the dominant financial inclusion indicators that emphasizes the ability of the public to utilize financial services and financial products.

The practical implications of this research include the outcomes of the research confirming that increasing financial literacy and financial inclusion for MSMEs can help improve their knowledge and skills in managing finances, which will affect the performance of MSMEs and help increase their income. Increasing financial literacy and inclusion will also help MSMEs manage their assets, enhance the quality of their products or services, increase market reach, and increase the profitability of MSMEs. Financial literacy and inclusion will also help MSMEs develop their ability to manage financial risks, raise awareness about correct financial practices, and help MSMEs access the right financing resources.

## CONCLUSION

This research presents empirical data demonstrating how financial management mediates the relationship between financial inclusion and financial literacy and the development of MSMEs. The findings indicate that, from seven hypotheses overall accepted, there is a positive effect on financial literacy and financial inclusion on financial management; there is a positive effect on financial literacy, financial inclusion, and financial management on MSMEs' development; and financial management can mediate financial inclusion and financial literacy towards MSMEs' development.

Additionally, this research has several limitations, including difficulties in collecting valid data to assess the effect of financial literacy and financial inclusion on the development of MSMEs due to the need for more openness from MSMEs to share relevant data or valuable information for research purposes limited time and resources to collect the data needed to perform more in-depth analysis. The data collection technique used is a questionnaire, so the data is likely subjective. It would be better to add an interview method so that the research results are more complete. This study only examines financial literacy and inclusion that affect the development of MSMEs, while many variables still affect the development of MSMEs. Therefore, it is advised that more variables be included in future studies, including fintech, marketing tactics, human resource considerations, and others.

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