

# The Role of Government, Financial Literacy, and Financial Inclusion on MSME Performance

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## ABSTRACT

**Introduction/Main Objectives:** This research aims to examine the extent to which the role of government, financial literacy, and financial inclusion effect the performance of MSME in Jepara Regency. This topic is considered important because MSME play a strategic role in maintaining national economic stability, even though the growth rate at the small and medium scale remains stagnant. **Background Problems:** The main question this research seeks to answer is: To what extent do the three variables effect the performance of MSME. **Novelty:** The novelty of this research lies in its analytical focus on the Jepara region and the simultaneous testing of three key variables within a single comprehensive analytical model, which is still rarely found in previous studies. **Research Methods:** This research was conducted using a quantitative approach, in which data were collected through a non-randomized sampling strategy employing convenience as the basis for participant selection. The sample consisted of 120 MSME actors who were actively operating their businesses. Data analysis was carried out using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach. **Finding/Results:** This research shows that financial literacy and the level of financial inclusion contribute positively and significantly to the improvement of MSME performance. In contrast, the role of government has no notable effect. **Conclusion:** The findings affirm the success of MSME is more strongly effectd by internal factors such as the competence of business actors and ease of access to formal financial services, rather than by government intervention. Therefore, it is necessary to improve financial literacy and expand inclusive financial access, accompanied by policy evaluations to ensure that government measures are more responsive to the actual needs of MSME actors.

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## 1. Introduction

MSME are considered an essential component of the national economic structure and have long been recognized by academics as a key driver of the economy. The strategic role of MSME is reflected in their ability to serve as the last line of defense in maintaining economic stability. In this context, the Directorate General of State Assets (DJKN) also emphasizes that MSME make a significant contribution to national economic resilience during times of crisis. Therefore, efforts

toward national economic recovery should begin with strategic measures to strengthen and restore the MSME sector (Ramdhani et al., 2022).

**Table 1. Total Turnover of MSME in Jepara**

Years	Total Turnover of MSME			
	Micro Enterprises	Small Enterprises	Medium Enterprises	Total Turnover of MSME
2023	2.830.038.925.820	1.035.973.544.000	533.325.800.000	4.399.338.269.820
2022	2.811.084.925.820	1.035.973.544.000	533.325.800.000	4.380.384.269.820
2021	2.809.689.925.820	1.035.973.544.000	533.325.800.000	4.378.989.269.820
2020	2.809.689.925.820	1.035.973.544.000	533.325.800.000	4.378.989.269.820
2019	2.771.689.925.820	1.027.073.544.000	0	3.798.763.469.820

Source: Jepara Data Portal, 2023

Although Micro, Small, and Medium Enterprises (MSME) play a crucial role in the structure of the national economy, this sector continues to face various obstacles in its development process. In nominal terms, MSME turnover has increased year by year. However, the growth tends to be slow and stagnant, particularly among small and medium enterprises, which have shown no significant changes since 2020. This condition indicates structural issues that hinder vertical mobility or business upgrading among MSME. The lack of a shift in business scale reflects that the performance of MSME has not yet reached an optimal level. This phenomenon is effected by a number of barriers and challenges faced by MSME in their efforts toward business growth and sustainability (Anam et al., 2022). The majority of total MSME turnover is still dominated by micro enterprises, accounting for more than 60% of the overall turnover, reflecting the significant dominance of the micro sector within the MSME structure in Jepara Regency. This structural imbalance has the potential to hinder the realization of a more advanced, inclusive, and competitive economic ecosystem. The development of MSME plays a strategic role in the regional economy, including in Jepara Regency. Data from the Office of Cooperatives, MSME, Manpower, and Transmigration (Diskopukmnakertrans) of Jepara Regency in 2023 showed that there were 81,909 business units, consisting of 77,683 micro enterprises (94.78%), 3,979 small enterprises (4.91%), and 247 medium enterprises (0.31%). These business units collectively absorbed 213,485 workers, indicating a significant contribution to job creation in Jepara (Anam et al., 2022).

The empowerment of Micro, Small, and Medium Enterprises (MSME) holds strategic significance given the vast scale of the sector and its potential to drive community economic activity. Moreover, MSME serve as a primary livelihood for the larger portion of the population, thereby directly contributing to efforts in improving general welfare and living standards. (Setyawati, 2009). Although the number of MSME has grown rapidly over time, many of them experience relatively slow business development. This condition implies a vulnerability in business sustainability, which in some cases results in the cessation of operations or bankruptcy (Adawiyah, 2013). Despite their significant contribution to the economy, this contribution is not fully supported by access to essential resources, particularly in terms of capital, training, and managerial capacity development. Such limited access affects the ability of MSME individuals in running their enterprises effectively and to optimize the resources they possess, thus becoming a major barrier in establishing a sustainable business ecosystem (Muhamad Lutfi Ramdhani et al., 2022). The frequent failures experienced by MSME actors in developing their businesses are generally caused by various internal weaknesses. These include limited access to capital, weak managerial capacity, low utilization of information and

technology, and a lack of financial literacy, all of which negatively impact business financial management (Kurniawati, 2016).

The performance of MSME (Micro, Small, and Medium Enterprises) is a tangible achievement resulting from the work activities carried out by individuals, effected by their responsibilities toward the company within a specific period of time, and related to the extent of their contribution to the organization where they work (Aribawa, 2014). MSME performance can be understood as the level of success achieved by business actors in reaching the outcomes of their business activities, as reflected through indicators such as sales volume, Availability of financial resources, Total workforce, Proportion of market control, and Long-term viability profit growth (Musran Munizu, 2010). In addition, MSME performance can also be refers to the outcomes produced by an individual in their work performance within a set period of time, aligned with their roles and responsibilities in the organization, and evaluated based on specific standards or performance measures established by the company (Cahya et al., 2022).

The government plays a crucial role in supporting the success of Micro, Small, and Medium Enterprises (MSME). MSME often face various challenges, such as limited access to financing, low managerial capacity, and a lack of innovation. The government can contribute through supportive policies, both in the form of regulations and development programs. According to Mutegi et al., (2015) the government's role in creating a conducive environment for MSME development is essential, for instance, by providing tax incentives, interest subsidies, and entrepreneurship training programs. Suryani & Rita (2023) also emphasize the importance of policies that support ease of licensing, access to markets, and social security for MSME actors to enhance their competitiveness and performance. In addition, the government plays a role in addressing structural barriers such as economic uncertainty and inadequate infrastructure (Hafid, 2020).

The importance of the government's role in this context cannot be overlooked. The government has a responsibility to create a conducive environment for the growth of Micro, Small, and Medium Enterprises (MSME). Through various policies and forms of support, the government can play a key role in facilitating MSME development. Therefore, this research aims to explore and analyze the extent to which the government's role has effected MSME performance in Jepara. In recent years, the government has implemented several policies to support MSME, such as tax incentives, skills training, and access to business capital. However, it is still necessary to explore to what extent these policies have had a positive impact. Thus, this research will investigate the implementation of these policies and the extent of government involvement in supporting MSME in Jepara. In this context, government involvement plays a crucial role particularly the Jepara City Government also plays a significant part in achieving successful MSME performance. This is reinforced by the results of research undertaken by Asakdiyah & Sutanto, (2024) which demonstrated that the government's role has a significant positive effect on MSME performance. Conversely, a research conducted by Komala Ardiyani, (2021) indicated that the government's role shows no notable influence on MSME achievement.

Financial knowledge and awareness is a key factor in supporting the optimization of MSME performance, as it involves enhancing entrepreneurs' capacity in terms of understanding, ability, and self-assurance in handling financial matters with optimal results and minimal effort (Masnila et al., 2021). In this context, Having financial knowledge can help to be understood as an individual's competence in making sound financial decisions, thereby minimizing the risk of financial problems caused by poor financial management. Financial literacy also encompasses a comprehensive

understanding of financial aspects in business activities, which facilitates business operators in running their operations. With adequate financial literacy, MSME actors can optimize financial resource management effectively to improve their business performance (Harmadji et al., 2022). Through financial literacy, MSME will acquire advanced knowledge that motivates them to work more productively and manage business performance more effectively (Hilmawati & Kusumaningtias, 2021). Understanding and mastering financial literacy is a fundamental skill that every individual should possess, as it affects personal financial conditions and supports rational and accurate economic decision-making (Ardianto et al., 2015).

Financial literacy refers to an individual's or a group's the capacity to comprehend and handle a range of financial aspects, including budgeting, saving, investing, and debt management. A high level of financial literacy can have a positive impact on business decision-making, fund management, and the sustainability of MSME. Rohman and Widodo (2021) stated that entrepreneurs with high financial literacy tend to be more skilled in managing risks and seizing financial opportunities, ultimately leading to improved business performance. Conversely, MSME actors with low financial literacy are more likely to make errors in cash management, engage in poor investment planning, and experience difficulties in accessing financing. By enhancing financial knowledge, MSME shall acquire more advanced knowledge to motivate themselves in managing their work and improving Economic performance (Hilmawati & Kusumaningtias, 2021). This aligns with studies conducted by (Ayu & Gede, 2020), (Aribawa, 2014) which confirmed a positive effect of financial knowledge on MSME achievement. However, a different finding was reported by (Cahya et al., 2022) who found that can be attributed to financial literacy no significant effect on MSME performance.

"One of the other factors influencing MSME performance is financial inclusion. According to the Financial Services Authority Regulation No. 76/POJK.07/2016, financial inclusion is defined as an effort to provide connection to organizations, goods, and services designed to address financial needs and capacities of the public, in order to develop living standards and reduce inflation. Broader access to financial services can be realized when individuals are able to easily access monetary services (Hilmawati & Kusumaningtias, 2021). The intended outcome is to strengthen strengthen economic stability and alleviate poverty and income disparities. The significant benefits of financial inclusion can be enjoyed by various groups, including MSME entrepreneurs, provided that financial services are accessible to the broader public. When individuals can more easily access financial services, economic development tends to progress more rapidly (Pasca et al., 2021). The spread of MSME contributes to community economic growth, particularly through increased entrepreneurial opportunities. However, MSME actors still face obstacles in expanding their businesses, especially regarding limited access to financial services. Hilmawati & Kusumaningtias, 2021) state that financing access difficulties are generally caused by MSME actors' inability to meet the administrative requirements set by financial institutions. To address this issue, one possible approach is the implementation of financial inclusion (Yanti, 2019), which emphasizes the importance of easy access to financial services as a factor that positively impacts business profitability. This is supported by findings from (Sanistasya et al., 2019) and (Yanti, 2019) which show that financial inclusion effects MSME performance. In contrast, studies by (Puspitasari & Astrini, 2021) and (Hilmawati & Kusumaningtias, 2021) found no significant effect of financial inclusion on MSME performance.

The inconsistencies in previous research results demonstrate that the relationship between the role of government, financial literacy, and financial inclusion with the performance of MSMEs still

leaves room for further exploration. The context of Jepara Regency, with its MSME structure dominated by micro enterprises and a tendency for stagnant growth, is an important reason for conducting this research. The aim of this study is to investigate and analyze the impact of the role of government, financial literacy, and financial inclusion on the performance of MSMEs in Jepara. The results are expected to provide significant empirical contributions to understanding the determinants of MSME performance and serve as a reference for formulating inclusive and sustainable MSME sector development policies.

## **2. Literature Review**

### **Resource-Based View (RBV) Theory**

The Resource-Based View (RBV) theory, introduced by Wernerfelt in 1984, explains that superior performance and long-term competitive advantage can be accomplished if an organization possesses and is able to leverage strategically important resources, rare, inimitable, and irreplaceable by other resources. In addition, the company must also have the capacity to absorb, manage, and optimize the use of these resources effectively in order to sustain its competitive advantage (Barney, 1991). According to RBV theory, both tangible and intangible resources play a crucial role in supporting firms or organizations in designing plans to attain market superiority (Sari, 2020). This research adopts the RBV theory to demonstrate that knowledge of finance and access to financial services, as elements of a company's internal resources, have a strategic role in supporting business sustainability, achieving competitive advantage, and improving performance in a sustainable manner. Although the role of government is generally regarded as an external factor affecting the performance of MSME, in reality, each business actor has different capabilities in responding to and utilizing available support. Therefore, the role of the government can also be considered a resource owned by MSME, given that the benefits of government policies and programs depend on the extent to which business actors can access and use them effectively.

### **MSME Performance**

MSME performance can be defined as the level of success achieved by business actors in reaching the outcomes of their business activities, as reflected in sales volume, access to capital, number of employees, market share, and sustainable profit growth (Musran Munizu, 2010). In general, MSME performance represents an evaluative measure of the output generated within a specific period, based on predetermined assessment standards. This evaluation includes the extent to which MSME processes and operational activities are effectively carried out, ultimately serving as a basis for efforts to improve profitability. Therefore, performance measurement becomes an essential aspect in evaluating the effectiveness of MSME in achieving their goals (Taufiq et al., 2020). Good performance in MSME reflects their ability to survive in a highly competitive market and adapt to changes in the business environment (Sashafilda, 2025).

### **Government Role**

The active role of the government in creating a supportive business environment is essential to the achievement of MSME. Government support can be manifested through the provision of supportive regulations, favorable tax policies, simplified licensing processes, expanded market access, implementation of mentoring and training programs, and the provision of financing with low interest rates (Komala Ardiyani, 2021). In general, the government's role refers to various forms of intervention or policy implemented by state institutions as part of their responsibility as public servants, with the primary orientation of improving public welfare (Ayu & Gede, 2020). As a

facilitator, the government is responsible for providing infrastructure and facilities that support MSME in achieving their business development goals. As a regulator, the government sets policies and regulations that offer convenience and legal certainty for MSME actors in developing their businesses. Meanwhile, in its role as a catalyst, local governments function to accelerate the growth and strengthening of the MSME sector through various strategic initiatives (K. Anam, 2019). The government plays a vital role in enhancing MSME performance through policies that support access to capital, regulatory simplification, infrastructure development, as well as training and marketing. By offering financial incentives and simplifying licensing processes, the government can help MSME grow and compete more effectively. However, regulatory complexity and economic instability can serve as barriers to MSME growth. Therefore, appropriate policies are essential to creating a conducive business ecosystem for MSME, in line with the findings of (Maharani & Nurlukman, 2023). Thus, The research hypothesis can be stated as follows:

**H1: The intervention of the government positively impacts on MSME performance.**

#### **Financial Literacy**

Financial literacy can be defined as a fundamental skill that encompasses understanding and knowledge of how to manage and regulate finances wisely (Ismail, 2024). Broadly speaking, financial literacy reflects an individual's capacity to comprehend, assess, and manage their financial condition, along with effective communication skills, which contribute to improving their quality of life (Sanistasya et al., 2019). A high Financial literacy plays a vital role in the development of MSME owners in managing their business finances. This is because the higher the level of financial understanding, the more optimal the ability to manage the business (Apristi, 2017). High financial literacy encourages business actors to be more prudent in conducting operational activities and facilitates the financial management process, thereby improving business performance optimally (Hilmawati & Kusumaningtias, 2021).

Dahmen & Rodríguez (2014) in their research, revealed a significant relationship between financial literacy and the performance of MSME. Logically, this suggests that MSME with adequate financial literacy tend to be more adaptive to changes in the business, economic, and financial environments, and are capable of making accurate and innovative choices aimed at improving their business outcomes. The research findings presented by Ayu & Gede, (2020) also indicate that financial literacy has a positive effect on MSME performance. Based on these findings, the proposed hypothesis is:

**H2: Financial literacy has a positive effect on MSME performance.**

#### **Financial Inclusion**

Financial inclusion aims to provide equal access to financial services for all segments of society as part of a strategy to enhance economic well-being (Joko et al., 2022). Riwayati (2017) research, in line with previous studies, shows that financial inclusion plays a strategic role in promoting the development of MSME. Access to financial services creates opportunities for business actors to improve their welfare through the utilization of financial products, while also strengthening business operations, such as increasing capital, income and profitability, in addition to business expansion employment opportunities. According to Yanti (2019) the increase in Financial inclusion contributes positively and significant effect on MSME performance. Supporting this finding, Sanistasya et al., (2019) also state that financial inclusion positively and significantly effects MSME performance. Based on these findings, the proposed hypothesis is:

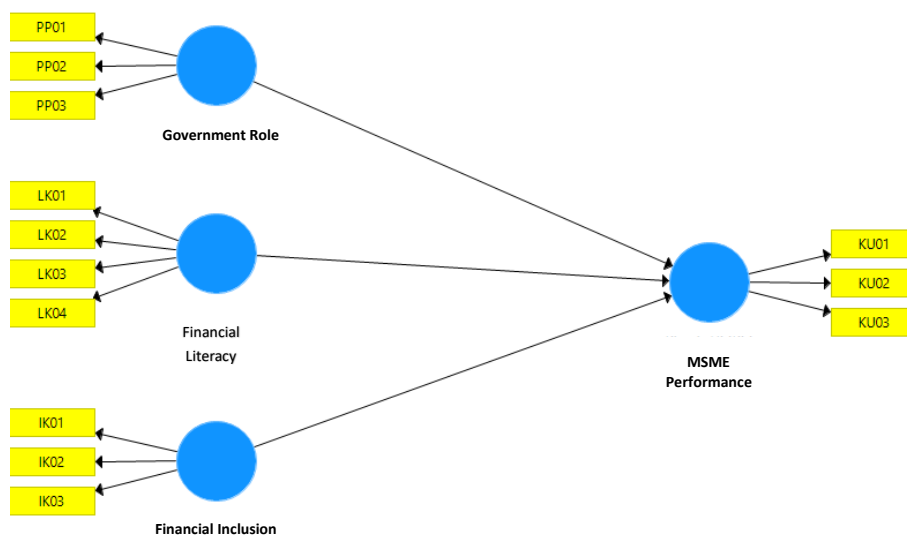
**H3: Financial inclusion has a positive effect on MSME performance.**

### 3. Method, Data, and Analysis

This research involved MSME actors as the research population, with a total of 81,909 MSME in Jepara (Diskopukmnakertrans Jepara, 2023). The sample was determined using a non-random sampling method through a convenience sampling approach, which allows the researcher to select respondents who are easily accessible and available. This method was chosen for its efficiency in terms of time and cost. The research employed a sample of 120 respondents. Data processing was conducted using SmartPLS version 3.0. This analytical technique was used to evaluate the causal relationships among variables in the research model, test the formulated hypotheses, and measure the extent to which government support, financial literacy, and financial inclusion effect MSME performance.

This research was conducted using a quantitative approach, aiming to describe the phenomenon based on data and to analyze the relationships or effects among variables. The independent variables in this research consist of the role of government, financial literacy, and financial inclusion, while the dependent variable is MSME performance. The role of government variable is measured through three indicators: the government’s function in providing facilitation, regulator, and catalyst (Diva, 2009). The financial literacy variable is measured based on three main indicators, namely basic knowledge of financial management, credit management, and savings and investment management (Ayu & Gede, 2020). The financial inclusion variable is measured using indicators that include the dimensions of access, quality, and usage (Hilmawati & Kusumaningtias, 2021). The MSME performance variable is measured using three indicators: increase in assets, expansion in sales volume and a boost in business income over previous periods (Wahyono & Hutahayan, 2021).

**Figure 1.** Conceptual Framework



Source: Processed Data, SmartPLS 2024

The analysis in this research is conducted using Structural Equation Modeling (SEM) through the Partial Least Squares (PLS) method approach to assist in the data processing stage of the research. The testing procedures used to ensure and evaluate data quality involve key indicators such as Cronbach's Alpha value greater than 0.7, and Composite Reliability (> 0.7). In addition, the R-Square value is used to reflect the strength of the effect of independent variables on the dependent

variable. The T-test is applied to test the proposed hypotheses, and the relationships among factors are evaluated based on the structural constructs applied

#### 4. Result and Discussion

##### Result

The characteristics of the respondents are presented at the beginning of the analysis to clarify the context and background of the data being studied. Understanding this information provides a comprehensive overview of the MSME actors who are the subjects of the research. Below is a brief profile of the respondents:

**Table 2.** Profile of Research Respondents

Profile	Category	Number	Percentage
Age	20–30 years	65	54.16%
	31–40 years	38	31.67%
	41–50 years	17	14.17%
Gender	Male	43	35.83%
	Female	77	64.17%
Length of Employment	1 year	15	12.5%
	2 years	30	25%
	3 years	25	20.8%
	4 years	10	8.3%
	5 years	40	33.3%
Number of Employees	5–10 people	66	55.00%
	10–15 people	48	40.00%
	15–20 people	6	5.00%

Source: Processed by the Researcher, 2024

The selected Participants were MSME actors across the city of Jepara. The sample size adopted for this study consisted of 120 respondents, categorized based on age, gender, business duration, and number of employees

**Table 3.** Validity and Reliability

	Factor Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)	R Square
<b>Government Role</b>	0,702-0,845	0,718	0,837	0,634	0,885
<b>Financial Literacy</b>	0,741-0,815	0,791	0,864	0,614	
<b>Financial Inclusion</b>	0,748-0,880	0,770	0,867	0,686	
<b>MSME Performance</b>	0,861-0,879	0,840	0,904	0,758	

Source: Processed Data using SmartPLS, 2024

The discriminant validity test in this research was conducted by referring to the Average Variance Extracted (AVE) values. A construct is considered to meet the criteria for discriminant validity if the AVE value exceeds 0.50. Based on Table 3, all constructs in the model have AVE values

above 0.50, indicating that convergent validity has been achieved. This suggests that the indicators within each construct are strongly correlated with one another. Furthermore, discriminant validity is reinforced through the analysis of cross-loading values, where all indicators show values above 0.70. These results indicate that each indicator correlates more strongly with its respective construct than with other constructs, thereby confirming the adequacy of the instrument's validity.

Reliability testing was conducted using composite reliability. In this measurement, a value greater than 0.70 indicates that the construct has high reliability. As shown in Table 3, the composite reliability values of the construct indicators are all above 0.70, indicating that the composite reliability test is fulfilled and the research instrument can be considered reliable.

Furthermore, based on Table 3, the total R-square value for the MSME performance variable is 0.885. This output demonstrates that 88.5% of the variance in MSME performance This can be interpreted through the research variables, namely the role of government, financial literacy, and financial inclusion. The remaining 11.5% is influenced by other external factors beyond the scope of this study.

**Table 4.** Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
<b>Government Role _ -&gt; MSME achievement</b>	-0,051	-0,048	0,062	0,819	<b>0,413</b>
<b>Financial Literacy -&gt; MSME achievement</b>	0,725	0,732	0,090	8,038	<b>0,000</b>
<b>Financial Inclusion -&gt; MSME achievement</b>	0,292	0,282	0,098	2,971	<b>0,003</b>

Source: Processed Data using SmartPLS, 2024

This research formulates the hypothesis that financial literacy and inclusion enhance the overall performance of micro, small, and medium enterprises, while the role of the government does not affect MSME performance. Based on the hypothesis testing results presented in Table 4, the variable of government role has a t-statistic value of  $0.819 < 1.658$  and a p-value of  $0.413 > 0.05$ , indicating that government involvement does not have a notable impact on MSME performance. Pertaining to finance literacy variable has a t-statistic value of  $8.038 > 1.658$  and a p-value of  $0.000 < 0.05$ , which indicates that financial literacy has a significant effect on MSME performance. Similarly, the financial inclusion variable obtained a t-statistic value of  $2.971 > 1.658$  and a p-value of  $0.003 < 0.05$ , also indicating a significant positive effect on MSME performance.

## Discussion

The results of this research indicate that government support does not have a significant effect on the performance of MSME in Jepara City. Although the government has designed various support programs and policies, such as training, mentoring, and the provision of facilities and infrastructure, implementation in the field often does not run as intended. Several obstacles have been identified, including poorly targeted assistance and overly complex bureaucratic procedures, which ultimately hinder the development of MSME (Asakdiyah & Sutanto, 2024). In addition, many MSME actors are unaware of available government support programs, such as training or tax incentives, due to the lack of effective dissemination by the government (K. Anam, 2019). Certain policies such as complex tax and licensing regulations are also perceived as burdens for MSME and

often obstruct their growth. These complicated regulations further exacerbate the difficulties MSME face in improving their performance (Pradipta, 2022). In the framework of the RBV theory, government intervention is considered an external resource whose usefulness heavily depends on the capability of business actors to access and optimize it. Therefore, when MSME actors are unable to effectively utilize the assistance, support from the government will not contribute to achieving competitive advantage.

This research found that financial literacy has a positive effect on the performance of MSME. This indicates that business actors with a higher level of financial understanding tend to demonstrate better business performance. MSME owners with strong financial literacy skills are generally able to make rational and well-measured financial decisions, as well as avoid potentially harmful financial risks. This ability provides greater resilience in facing economic uncertainties and enables business actors to capitalize on available opportunities. Therefore, financial literacy plays a crucial role in enhancing MSME performance (Sashafilda, 2025). Analyzing the influence of financial awareness on the effectiveness of MSME is driven by the improved understanding of financial management among business actors. Financial literacy provides the necessary knowledge for MSME players to formulate appropriate financial strategies, make rational decisions, and select financial services that align with their business needs. People with greater financial knowledge are more likely to engage in well-structured financial planning, which ultimately contributes to the success and sustainability of their businesses (Lusardi & Mitchell, 2008). Based on the analysis results, this finding aligns with Barney's (1991) Resource-Based View (RBV) theory, which emphasizes that internal resources such as financial literacy can be a valuable asset in supporting the achievement of competitive advantage and superior performance. Therefore, the level of financial literacy possessed by SMEs becomes a key determinant in improving their business performance. As financial literacy increases, individuals or business actors can better understand how to manage their finances effectively, allowing them to make more accurate decisions in fund allocation and investment activities.

The performance of Micro, Small, and Medium Enterprises (MSME) is significantly affected by the level of financial inclusion. When MSME actors gain access to formal financial services, they have greater opportunities to scale up their businesses in terms of both production and marketing. Such access also contributes to operational efficiency and increased business profits, ultimately supporting overall MSME performance growth (Ardiansyah et al., 2022). In the development of MSME performance, financial inclusion serves as a key supporting factor. Accessible, efficient, and secure financial services allow business actors to feel more comfortable using them. When these services are utilized effectively, MSME can achieve better business performance through increased revenue, customer base, and profit (Febriansyah et al., 2024). In the perspective of the Resource-Based View (RBV), access to financial services is seen as a form of supporting resource that can strengthen the internal capabilities of business actors. When optimally utilized, this access can encourage business development and expand the opportunities for SMEs to compete more competitively. Steelyana (2013) stated that financial inclusion can accelerate economic growth by optimizing the financial sector and expanding public access particularly for MSME to financial services. Greater access to funding sources is considered crucial in supporting business development and strengthening MSME performance. Financial inclusion has been proven to significantly increase MSME sales and profits, making it a determining factor in supporting business success.

## 5. Conclusion and Suggestion

The objective of this research is to analyze the extent to which government role, financial literacy, and access to financial services effect the performance MSME in Jepara region. A quantitative approach was applied in this research, utilizing the Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis technique. The results indicate that financial literacy and financial inclusion contribute significantly and positively to MSME outcomes, whereas government engagement does not show a significant effect in this context. These findings provide empirical evidence that internal factors and individual capabilities of business actors such as knowledge and skills in financial management as well as access to formal financial services are more decisive in determining MSME success compared to external government interventions. The insignificance of the government's role may be attributed to limited program outreach, lack of socialization, or a mismatch between policies and the actual needs of MSME actors. Theoretically, these findings reinforce the Resource-Based View (RBV) approach, which emphasizes that superior performance can be achieved through the optimization of internal resources that are strategically valuable and difficult to replicate, such as financial literacy. This research also highlights that financial inclusion is a supporting factor that enhances MSME competitiveness through improved access to financing, savings, and other financial services. Practically, the results contribute to the formulation of more effective MSME empowerment strategies, particularly through strengthening financial education and expanding the reach of formal financial services. The limitation of this research lies in its restricted geographical scope and the use of a quantitative approach, which does not fully capture social and institutional dynamics. Therefore, future research is recommended to incorporate a descriptive approach aimed at explore MSME actors' views on government interventions and also to include other regional contexts in order to enhance the generalizability of the findings

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