The Effect of Financial Literacy on The Financial Performance of Msmes Palopo City

Erna[1], Goso[2], Ibrahim Halim[3]

[1,2,3]Faculty of Economics and Business, University of Muhammadiyah Palopo, Indonesia

Email: eernaaerna438@gmail.com

Keywords:

Financial knowledge, financial ability, financial skills, financial confidence, digital literacy, MSME financial performance

Abstract

This study aims to determine the influence of financial literacy on the financial performance of MSMEs in Palopo City. The data used in this study is primary data of 99 MSMEs in the Pancasila Field, Palopo City. The sampling technique used is a technique based on convenience. The method used to analyze the relationship between independent variables and dependent variables is the simple linear regression method. The results of the analysis with SmartPLS show that financial literacy has a positive and significant effect on the performance of MSMEs in Palopo City. This shows that the importance of a business to have knowledge of finance is related to how recording techniques, bookkeeping, the level of business debt and the budget needed in running a business.

INTRODUCTION

In the ever-growing global economy, Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy. MSMEs make a major contribution to the Gross Domestic Product (GDP) and create jobs for millions of people. Based on data from the Central Statistics Agency (BPS) in 2023, MSMEs account for around 60% of total GDP and absorb more than 97% of the national workforce. With this large contribution, the sustainability and growth of MSMEs is an important aspect in encouraging an inclusive economy. However, many MSMEs face challenges in managing their finances, which are often caused by low financial literacy. Financial literacy, including an understanding of budget management, investment planning, and debt management, is considered a key factor in improving the financial performance of MSMEs. (Rumbianingrum & Wijayangka, 2018).

Financial literacy includes understanding and skills in managing various aspects of finance, such as basic knowledge of financial products and services (savings, investments, and loans), financial planning and budgeting, cash flow management, and an understanding of risks and potential benefits. MSME owners with a good level of financial literacy tend to be better able to make the right financial decisions, plan cash flow more effectively, and manage risks related to their business operations (Susanti et al., 2018). However, a survey conducted by the Ministry of Cooperatives and SMEs revealed that the level of financial literacy among MSME owners is still relatively low, which can hinder the growth and sustainability of their businesses.

In an effort to understand the influence of financial literacy on the financial performance of MSMEs, the literature confirms some of the contradictions that still occur on this topic so it is important to study further, such as in research by (Ayu & Gede, 2020) performance and sustainability of MSMEs, research by (Rumbianingrum & Wijayangka, 2018) about MSME financial management, as well as research on MSMEs in the F&B Sector (Hasanah et al., 2023). The majority of the research focuses on business performance and sustainability and is not specific to financial performance.

According to research Hasan et al. (2021), the low financial literacy among Micro, Small, and Medium Enterprises (MSMEs) is influenced by several factors, including education level, access to financial information, and the age of business actors. A similar phenomenon also occurs in Palopo City, where low understanding and skills in managing financial aspects contribute to various financial challenges. Many MSME actors in this city have not implemented good financial management, which can be seen from the lack of separation between personal and business finances. As a result, cash flow is often not properly monitored, making it difficult for business owners to assess their business performance objectively and accurately. Better financial management, supported by a high level of financial literacy, has the potential to improve the welfare and income of MSME actors (Susanti et al., 2018). However, many previous studies have not in-depth considered the demographic and socio-economic factors that affect financial literacy levels. For example, aspects such as age, education, and business experience often have not been thoroughly analyzed in the relationship between financial literacy and business performance. In addition, there are still limitations in research evaluating the effectiveness of programs or interventions aimed at improving financial literacy. Therefore, this study not only seeks to fill gaps in the existing literature, but also provides evidence-based recommendations on strategies that can be applied to improve financial literacy among MSME actors in Palopo City.

This is in line with the opinion Al-Adeem (2023), which states that financial management is often an overlooked aspect of Micro Business business, especially when it comes to applying the principles of accounting and financial management. In fact, good financial management can have a positive impact on business sustainability (Rumbianingrum & Wijayangka, 2018).

This phenomenon is a serious concern because low financial literacy not only has an impact on the individual financial performance of MSME actors, but can also weaken their competitiveness in the midst of increasingly fierce market competition. Research conducted by Susanti et al. (2018) shows that MSMEs with high levels of financial literacy tend to have better financial performance than those with low literacy. Unfortunately, in Indonesia, there are still many MSMEs who run their businesses without an adequate understanding of sound financial practices, which can ultimately hinder the growth and sustainability of their businesses.

By highlighting the existing gaps, this study seeks to make a significant contribution in understanding the importance of financial literacy for MSMEs in Palopo City. Through a comprehensive approach, the results of this research are expected to be the basis for formulating more effective policies and programs to improve financial literacy. In the end, this increase in financial literacy is expected to have a positive impact on the financial performance of MSMEs in Palopo City as a whole.

Although there have been several studies that have discussed financial literacy and business performance, there are still shortcomings in the existing research. Therefore, this study aims to fill this gap with a more contextual and comprehensive approach, especially in the MSME ecosystem in Palopo City. Thus, this research not only contributes to academic development, but also provides practical guidance for efforts to improve financial literacy in the MSME sector.

The uniqueness of this research lies in the application of innovative methodologies and its focus on local contexts that have received less attention in previous studies. By exploring the relationship between financial literacy and the financial performance of MSMEs, this research is expected to make a meaningful contribution to the development of theories and practices in the fields of economics and business. The justification for this research is very relevant, considering

that increasing financial literacy can have a positive impact on the financial performance of MSMEs, which in turn supports broader and sustainable economic growth.

Although MSMEs have an important role in the Indonesian economy, many of them still face major challenges in financial management. One of the main obstacles faced is low financial literacy, which negatively affects their ability to make the right financial decisions. Data shows that most MSME actors do not have a sufficient understanding of basic financial concepts, such as budget planning, debt management, and investment. As a result, they often have difficulty managing cash flow, estimating long-term financial needs, and maximizing the use of available financial resources. (Bahiyu, E. L. U., Saerang. I. S., & Untu, 2021).

This study aims to comprehensively analyze the influence of financial literacy on the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in Palopo City. By understanding this relationship, this study provides in-depth insights into how improving financial literacy can affect financial decision-making among MSME actors. Good financial literacy is considered a key element in efficient financial management, which can ultimately increase profitability, liquidity, and business competitiveness.

More specifically, this study seeks to identify the main aspects of financial literacy that affect the financial performance of MSMEs in Palopo City. This includes an analysis of basic financial understanding, the ability to prepare a budget, and knowledge of investment and debt management. By exploring these various dimensions, this study aims to uncover factors that can be optimized to improve the financial performance of MSMEs. In addition, the results of this research are expected to be the basis for the development of more effective financial training and education programs, thereby helping MSME actors in managing their finances better.(Yanti, 2019).

METHODS

This study uses a quantitative descriptive approach to measure and analyze the influence of financial literacy on the financial performance of MSMEs in Palopo City. The design of this study aims to provide an objective picture of the relationship between the level of financial literacy and the financial performance of MSMEs by collecting data through surveys using questionnaires and direct interviews. This research was conducted using a survey method in Palopo City, with a population consisting of MSMEs spread across various sectors. The research sample was taken from the dominant MSME sectors, such as trade, food, and beverages, using random sampling methods to ensure proportional representation. Data collection was carried out through observation, interviews, and questionnaire distribution. The observation aims to directly observe the operational activities and financial management practices of MSMEs that are the research samples. The interviews were conducted to gain a deeper understanding of financial management practices and the obstacles faced by MSME actors. In addition, the questionnaire used in this study was compiled based on financial literacy indicators and has gone through validity and reliability tests before being implemented.

The quantitative approach in this study affects the results obtained, including the measurement method and scale used. The scale applied in this study is the Likert scale, which is used to measure each variable based on its indicators.

The financial literacy variables in this study are divided into four main aspects, which are measured through 45 question items. The indicators used include basic knowledge of personal finance, savings and loans, insurance, investment, basic skills in budgeting, risk management, collection of credit and investment information, budgeting, cash flow management, understanding of financial products, money management, financial planning, and confidence in financial knowledge, calculation, and problem solving (Sarwoto et al., 2023) ; (Lusardi & Mitchell, 2013) ; (Yudiaatmaja, 2018); (Tiento & Anwar, 2023).

Meanwhile, the digital literacy variable was measured through 12 question items with indicators including the ability to search for and access information, understand the information obtained, evaluate and differentiate information, and organize knowledge based on the information obtained (Abror Rifky Ahmad, 2023).

The financial performance variables of MSMEs are measured using 9 question items based on asset, turnover, and profit indicators (Jubaedah Siti, 2016). The measurement of variables in this study uses 4 points, namely: 1: strongly agree (SS), 2: agree (S), 3: disagree (TS), 4: strongly disagree (STS). The distribution of the questionnaire was carried out by using google form to facilitate the distribution that produced the final sample, linear regression analysis of the data was carried out with the smartPLS4 program.

RESULTS AND DISCUSSION

Result

This study used primary data obtained through an online questionnaire with an assessment scale (1 = strongly disagree to 4 = strongly agree). The research sample includes all MSMEs located in the Pancasila Field area, with a total of 222 MSME respondents, consisting of 101 male respondents and 101 female respondents.

Data analysis was carried out using SmartPLS 4 software. The evaluation of the measurement model was carried out through the PLS-Algorithm method, where the relationship between the indicator and the latent variable was analyzed based on the loading factor values shown in Table 2. An indicator with a loading factor above 0.7 indicates that the variable is able to explain more than 50% of the variance of the indicator, so the reliability of the item is considered adequate (Stephanie Baby & Wijayangka Candra, 2019). In addition, an Average Variance Extracted (AVE) value that exceeds 0.5 indicates that the latent variable can explain at least 50% of its own variance. Meanwhile, the Composite Reliability with a value of more than 0.7 confirms that the indicators on each latent variable are valid and can be used as a measuring tool in this study.
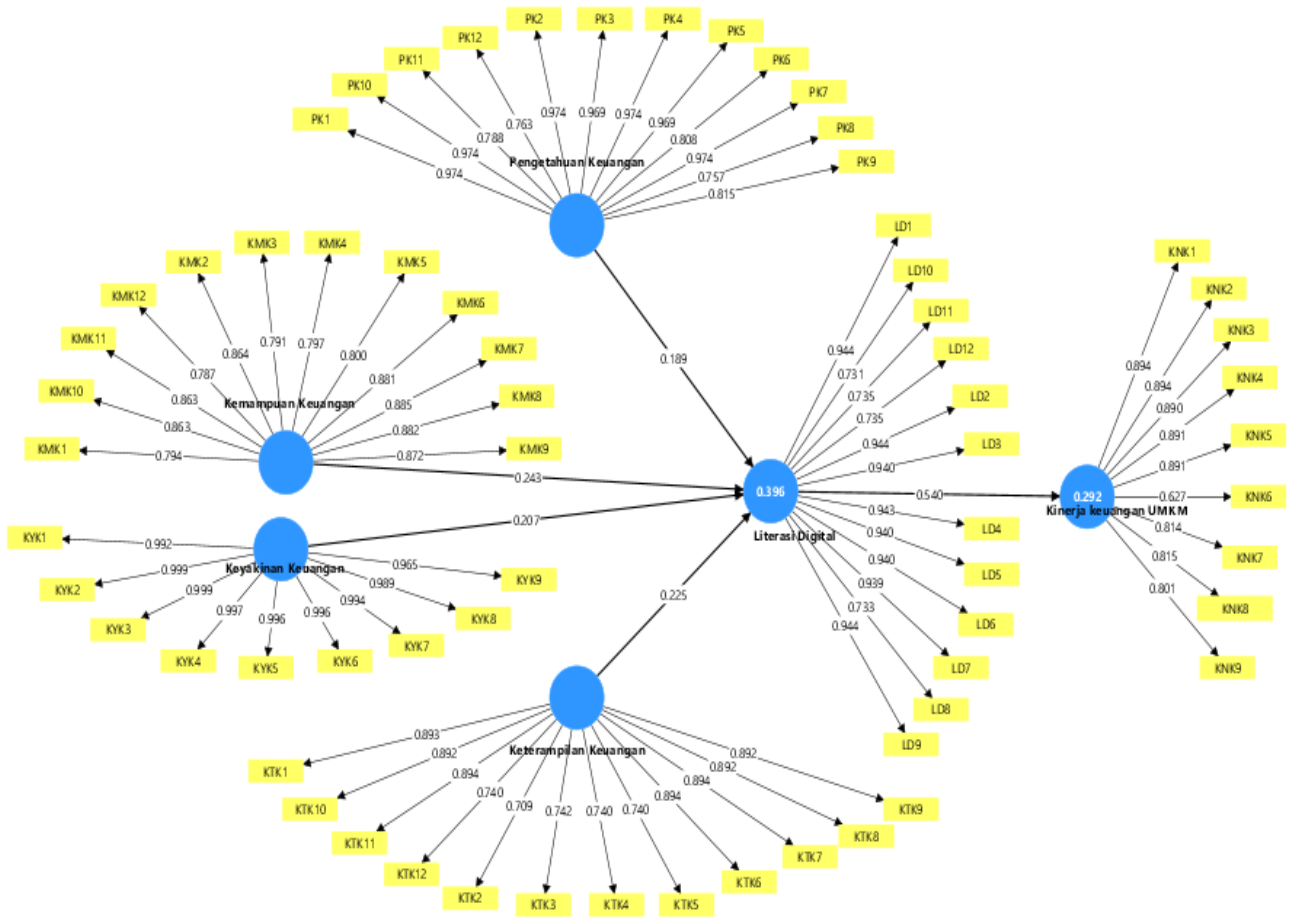
Convergent Validity Test Results

Figure 2. Test Measurement Model

Based on Figure 2, the convergent validation criteria have been met because the load of each indicator item of each latent variable is 0.7. So that these items can be said to be valid and reliable in measuring constructs in one construct proving that the construct is well measured.

Table 1 . Table Outher Loading

	Grain	Loading Factor	Information	Component Reability
	PK1	0,974	Valid	
	PK2	0,974	Valid	
	PK3	0,969	Valid	
	PK4	0,974	Valid	
Knowledge	PK5	0,969	Valid	0,981
Finance	PK6	0,808	Valid	
	PK7	0,974	Vlid	
	PK8	0,757	Valid	
	PK9	0,815	Valid	
	PK10	0,974	Valid	
	PK11	0,788	Valid	
	PK12	0,763	Valid	
	KMK1	0,794	Valid	

	KMK2	0,864	Valid	
	KMK3	0,791	Valid	
	KMK4	0,797	Valid	
Ability	KMK5	0,800	Valid	0,967
Finance	KMK6	0,881	Valid	
	KMK7	0,885	Valid	
	KMK8	0,882	Valid	
	KMK9	0,872	Valid	
	KMK10	0,863	Valid	
	KMK11	0,863	Valid	
	KMK12	0,787	Valid	
	KTK1	0,893	Valid	
	KTK2	0,709	Valid	
	KTK3	0,742	Valid	
	KTK4	0,740	Valid	
Skills	KTK5	0,740	Valid	0,964
Finance	KTK6	0,894	Valid	
	KTK7	0,894	Valid	
	KTK8	0,892	Valid	
	KTK9	0,892	Valid	
	KTK10	0,892	Valid	
	KTK11	0,894	Valid	
	KTK12	0,740	Valid	
	KYK1	0,999	Valid	
	KYK2	0,999	Valid	
	KYK3	0,999	Valid	
	KYK4	0,997	Valid	
Belief	KYK5	0,996	Valid	0,998
Finance	KYK6	0,996	Valid	
	KYK7	0,994	Valid	
	KYK8	0,989	Valid	
	KYK9	0,965	Valid	
	LD1	0,994	Valid	
	LD2	0,944	Valid	
	LD3	0,940	Valid	
	LD4	0,943	Valid	
Literacy	LD5	0,940	Valid	0,972
Digital	LD6	0,940	Valid	
	LD7	0,939	Valid	
	LD8	0,733	Valid	
	LD9	0,944	Valid	
	LD10	0,731	Valid	
	LD11	0,735	Valid	
	LD12	0,735	Valid	
	KNK1	0,848	Valid	
	KNK2	0,848	Valid	
	KNK3	0,843	Valid	
Performance	KNK4	0,843	Valid	0,936
Finance	KNK5	0,731	Valid	

MSMEs	KNK6	0,727	Valid	
	KNK7	0,813	Valid	
	KNK8	0,919	Valid	
	KNK9	0,806	Valid	

According to (Wati & Yusuf, 2024) The data is said if the loading factor value is greater than 0.5. And the results of the validity test stated that the statement indicator representing 6 variables was declared valid at a value of >0.5.

The analysis is considered reliable if it has a construct reliability>0.7 value. The results of this test showed that the C.R value in the variable of financial knowledge was 0.979, Financial ability 0.962, Financial skills 0.959, financial confidence 0.998, Digital literacy 0.972, and financial performance of MSMEs 0.935 if all the reliability of research instruments was greater than 0.70, this shows that the instrument has good internal consistency.

Average Variance extracted ((AVE)

Table 2. AVE

Digital Financial Literacy	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
Financial knowledge	0,797	0,995	0,981	0,809
Financial Capabilities	0,962	0,962	0,967	0,707
Financial skills	0,959	0,959	0,964	0,690
Financial confidence	0,998	0,998	0,998	0,984
Literacy Digital	0,972	0,972	0,976	0,771
Financial performance of MSMEs	0,935	0,936	0,945	0,656

From the table above, it can be concluded that the AVE value for each construct Financial Knowledge = 0.809, Financial Ability = 0.707, Financial Skills = 0.690, Financial Confidence = 0.984, Digital Literacy = 0.771, and MSME Financial Performance = 0.656 the six constructs already have a value of more than 0.50, meaning that the six constructs are declared valid.

Reliability Test

Reliability is a consistent measure of the indicator in measuring its variables. The values used to determine the reliability level of the SEM model are Composite reability and Cronbach alpha. This type of reliability serves to determine the level of internal reliability of variable indicators.

Table 3. Composive Reability

Digital Financial Literacy	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
Financial knowledge	0,797	0,995	0,981	0,809
Financial Capabilities	0,962	0,962	0,967	0,707
Financial skills	0,959	0959	0,964	0,690
Financial confidence Literacy	0,998	0,998	0,998	0,984
Digital	0,972	0,972	0,976	0,771
Financial performance of MSMEs	0,935	0,936	0,945	0,656

Output composite reability results for the construct of Financial Literacy = 0.981, Financial Ability = 0.967, Financial Skills = 0.964, Financial Confidence = 0.998, Digital Literacy = 0.976, MSME Financial Performance = 0.945. This shows that all variables have a good reliability value because they have *a composite reability* value greater than 0.70.

Crondbach's Alpha

The results of this crondbach's alpha can be seen in the table below

Table 4. Cronbach Alpha

Digital Financial Literacy	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
Financial knowledge	0,797	0,995	0,981	0,809
Financial Capabilities	0,962	0,962	0,967	0,707
Financial skills	0,959	0,959	0,964	0,690
Financial confidence Digital literacy	0,998 0,972	0,998 0,972	0,998 0,976	0,984 0,771
Financial performance of MSMEs	0,935	0,936	0,945	0,656

From the table above, it shows that the value of Financial Knowledge = 0.979, Financial Ability = 0.962, Financial Skills = 0.959, Financial Confidence = 0.998, Digital Literacy = 0.972, MSME Financial Performance = 0.935. Since each of the above values has exceeded 0.70, it can be said that the above values have met the alpha crondbach's requirements.

R-Square Test Results

Table 5. R-Square Table

	R-square	R-square adjusted
Digital Literacy	0,395	0,384
Financial Performance of MSMEs	0,331	0,328

The R-Square value obtained from this research model for Digital Literacy is 0.395 and the MSME Financial Performance variable is 0.331. In conclusion, the R-Square value for the Digital Literacy variable is 0.331 which means that the variable can be explained clearly and as knowledge of 39.5% is included in the strong category, then the R-Square of the MSME Financial Performance variable of 33.1% is included in the strong category.

Estimation of Path Coefficients and Hypothesis Tests

In the use of the SmartPLS 4.0 program, the criteria for accepting hypotheses are carried out by bootstrapping, so that it can be known about the relationship between the influence of independent variables on dependent variables. A hypothesis can be said to be significantly accepted if the P-value is < 0.5 and the t-statistical value > the t-table (1.96). The results of the path coefficient test and hypothesis test are as follows.

Patch Coefficient

Table 6. Patch directly

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ($|O/STDEV|$)	P Value
Financial Literacy -> Digital Literacy	0,198	0,193	0,066	2,887	0,004
Financial Literacy -> Digital Literacy	0,243	0,242	0,082	0,967	0,003
Financial Skills -> Digital Literacy	0,225	0,228	0,067	3,334	0,001
Financial Confidence -> Digital Literacy	0,207	0,207	0,071	2,926	0,003
Digital Literacy - > MSME Financial Performance	0,575	0,579	0,051	11,372	0,000

(1) Hypothesis 1

Based on the table above, the results of the path coefficient test in the original sample column show that the financial knowledge variable has an effect on digital literacy with a value of 0.198. In addition, a t-statistic value of 2.887 and a P-value of 0.004 (< 0.05) indicate that these influences are positive and significant. Thus, hypothesis 1 is acceptable, which means financial literacy has a significant impact on digital literacy. This is evidenced by a t-statistic value greater than 1.96 and a P-value smaller than 0.05, so hypothesis 1 is proven.

(2) Hypothesis 2

Based on the table above, the results of the path coefficient test in the original sample column show that the financial ability variable has an effect on digital literacy with a value of 0.243. In addition, a t-statistical value of 0.967 and a P-value of 0.003 (< 0.05) indicate that the influence is positive and significant. Thus, hypothesis 2 is acceptable, which means financial ability has a significant impact on digital literacy. This is evidenced by a t-statistical value greater than 1.96 and a P-value smaller than 0.05, so hypothesis 2 is proven.

(3) Hypothesis 3

Based on the table above, the results of the path coefficient test in the original sample column show that the financial skills variable has an effect on digital literacy with a value of 0.225. In addition, a t-statistic value of 3.334 and a P-value of 0.001 (< 0.05) indicate that the influence is positive and significant. Thus, hypothesis 3 is acceptable, which means financial skills have a significant impact on digital literacy. This is evidenced by a t-statistic value greater than 1.96 and a P-value smaller than 0.05, so hypothesis 3 is proven.

(4) Hypothesis 4

Based on the table above, the results of the path coefficient test in the original sample column show that the financial confidence variable has an effect on digital literacy with a value of 0.207. In addition, a t-statistic value of 2.926 and a P-value of 0.003 (< 0.05) indicate that the influence is positive and significant. Thus, hypothesis 4 is acceptable, which means that financial beliefs have a significant impact on digital literacy. This is evidenced by a t-statistic value greater than 1.96 and a P-value smaller than 0.05, so hypothesis 4 is proven.

(5) Hypothesis 5

Based on the table above, the results of the path coefficient test in the original sample column show that the digital literacy variable has an effect on the financial performance of MSMEs with a value of 0.575. In addition, a t-statistic value of 11.372 and a P-value of 0.000 (< 0.05) indicate that the influence is positive and significant. Thus, hypothesis 5 is acceptable, which means that digital literacy has a significant impact on the financial performance of MSMEs, according to criteria where the t-statistic value is greater than 1.96 and the P-value is less than 0.05. This proves that digital literacy plays an important role in improving the financial performance of MSMEs.

Table 7. Patch coefficients directly

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P Value
Financial Literacy -> Digital Literacy -> MSME Financial Performance	0,109	0,113	0,042	2,611	0,009
Financial Literacy -> Digital Literacy -> MSME Financial Performance	0,140	0,141	0,050	2,776	0,006

Financial Skills ->Digital Literacy -> MSME Financial Performance	0,192	0,133	0,042	3,073	0,000
Financial Confidence -> Digital Literacy -> MSME Financial Performance	0,119	0,120	0,043	2,766	0,006

Discussion

This research aims to examine the influence of financial knowledge, financial ability, financial skills, financial confidence, advanced literacy, and financial performance of MSMEs on the financial welfare of MSME actors in the Pancasila field of Palopo City. Using the SmartPLS 4 pathway and linear device analysis, the research findings provide significant empirical evidence of the relationship between these variables.

The effect of financial literacy knowledge on the financial performance of MSMEs

The test results showed that financial knowledge had a positive and significant influence on financial performance, with a t-statistic value of 2.887 and a p-value of 0.004. These findings indicate that an individual's level of financial knowledge plays an important role in determining the financial performance of a business. The higher the financial knowledge you have, the better the financial management and achievement in the business. These results are in line with previous research by (Hanasri et al., 2023), which found that financial knowledge contributes positively to the financial performance of MSMEs and online businesses.

The effect of financial literacy skills on the financial performance of MSMEs

Good accounting literacy skills for MSME actors play a role as a source of information that supports more effective economic decision-making. Hanasri et al. (2023). stated that accounting knowledge has a positive and significant influence on the performance of MSMEs in Palopo City, with a t-statistic value of 2.967 and a p-value of 0.003. These findings show that the higher the accounting literacy, the better the financial performance of MSMEs. In addition, research conducted by (Setyorini, 2023) also supports the relationship between accounting literacy and financial performance, where the variables of financial knowledge, financial ability, financial skills, and financial confidence are proven to be positively predictable to predict the performance of MSMEs in Palopo City.

The Influence of Financial Literacy Skills on the Financial Performance of MSMEs

Financial literacy has a significant impact on the performance of Micro, Small, and Medium Enterprises (MSMEs). A good understanding of financial literacy allows MSME actors to manage their income more effectively and efficiently, which ultimately contributes to improving the financial performance of their businesses. A number of studies have highlighted the relationship between financial literacy and MSME performance. Research by (Madaniyah Nur Aisyah Putri & Hwihanus Hwihanus, 2023) found that financial literacy had an influence with a t-statistic value of 3.334 and a p-value of 0.001 on the performance of MSMEs in Palopo City. These findings indicate that the higher the level of financial literacy of business actors, the better the business performance achieved. In addition, good financial literacy helps MSME actors in making wiser financial decisions, improving financial planning, and optimizing operational efficiency. Overall, adequate financial literacy understanding and skills play an important role in supporting the growth

and sustainability of MSMEs. Therefore, increasing financial literacy is a strategic step for business actors to achieve more optimal performance.

The Effect of Financial Literacy Belief on MSME Financial Performance

Confidence in financial literacy, which includes understanding, skills, and confidence in managing financial aspects, has a crucial role in determining the performance of Micro, Small, and Medium Enterprises (MSMEs). Business actors with good financial literacy are better able to make financial decisions effectively, which ultimately has a positive impact on their business performance. Research by (Putri rahma Eka, Goso, Hamid Rahmad Solling & Imran, 2021) Indicates that individuals with high financial literacy have strong understanding, skills, and confidence in managing their finances. Meanwhile, research by Setyorini (2023). found that financial literacy has a positive and significant effect on the performance of MSMEs in Palopo City, with a t-statistic value of 2.926 and a p-value of 0.003. A higher level of literacy allows MSME actors to optimize their business performance to the maximum. Overall, belief in financial literacy helps MSME owners better manage their finances, reduce risk, and improve operational efficiency, which overall contributes to the growth and sustainability of their businesses.

The Effect of Financial Literacy on the Financial Performance of MSMEs

The results of the hypothesis test showed that financial literacy had a positive influence on the performance of MSMEs, with a P-Values value of 0.000 and a positive T-statistic of 11,372. This finding indicates that the higher the level of financial literacy possessed by MSME owners or managers, the better the business performance that can be achieved. The success or failure of MSMEs is greatly influenced by the skills and abilities of business actors. In the entrepreneurial process, there are three basic categories of capital that contribute to business success, namely human capital, social capital, and financial capital. One of the important aspects that supports the growth of MSMEs is financial capital, so it is important for every business actor to have a good understanding of financial management. The results of this study are in line with the findings (Ayu & Gede, 2020), which states that financial literacy has a positive effect on business performance. Financial literacy provides business owners with the knowledge, skills, and ability to develop financial strategies, make the right decisions, and choose appropriate financial services. In addition, financial literacy also helps in business planning, financial planning, and more strategic investment decision-making, thereby contributing to the growth and sustainability of MSMEs.

The influence of financial digital literacy on the financial performance of MSMEs

The Influence of Digital Marketing through Fintech-Based Payment Portals on MSME Performance The results of the hypothesis test show that digital literacy has a significant influence on MSME performance, with a t-statistic value of 2.887 and a P-Value of 0.004. These findings support the H-5 hypothesis, in which the identified relationship is positive. This means that the higher the digital marketing activities carried out, the higher the use of fintech-based payment portals, which ultimately has a positive impact on improving the performance of MSMEs.

The results of this study are in line with previous findings by (Damayanti et al., 2024), which states that digital marketing has a positive and significant influence on a company's financial performance. Digital marketing carried out through social media and websites has proven to be effective in attracting the attention of consumers and making it easier for them to meet their needs. In addition, digital marketing allows MSMEs to increase effectiveness and efficiency in their marketing and sales strategies by leveraging technology. Thus, the use of digital marketing and fintech-based payment portals can be the right strategy for MSMEs to

Practical Implications

The findings of this study have several practical implications that can be applied to improve the performance of MSMEs. First, the government and financial institutions need to provide financial training and education programs that cover various aspects, such as financial knowledge, financial skills, financial confidence, digital literacy, and financial performance of MSMEs. This program must be specifically designed to meet the needs of MSME actors, with a

more applicable approach so that it can be directly applied in their business operations. Second, efforts are needed to increase MSMEs' access to digital financial technology. This can be realized through the development of better digital infrastructure, such as the provision of faster and more affordable internet networks, as well as the development of financial applications that are user-friendly and in accordance with the needs of MSMEs. Third, supporting policies such as tax incentives or subsidies for MSMEs that adopt digital financial technology can encourage the wider use of digital financial literacy. In addition, increasing consumer protection in digital transactions is also important to reduce MSME actors' concerns about their financial security.

CONCLUSION

This study concludes that financial knowledge, financial ability, and financial skills have a positive and significant effect on the financial performance of MSMEs, both directly and through digital financial literacy as a mediating variable. Financial literacy refers to an individual's understanding of basic financial concepts, such as money management, investment, savings, and financial planning. Financial ability reflects a person's capacity to apply financial knowledge to make effective economic decisions, such as managing income and expenses. Financial skills involve practical expertise in managing finances, including budgeting, financial reporting, and financial analysis. Financial confidence describes a person's level of confidence in managing aspects of personal or business finances, including in financial decision-making. Digital financial literacy includes the ability to understand, use, and utilize digital technology to access, manage, and analyze financial information. The financial performance of MSMEs is measured based on indicators such as profitability, liquidity, operational efficiency, and business growth. Therefore, strengthening digital financial literacy through training and education programs can be an effective strategy in improving the financial welfare of MSMEs in a sustainable manner.

Suggestion

Increasing financial literacy has a significant impact on the financial performance of MSMEs in Palopo City. A good understanding of financial management allows business actors to manage cash flow more effectively, record finances systematically, and make more mature budget planning. In addition, good financial literacy also helps MSMEs in accessing funding sources, both from banks and other financial institutions, so that they can develop their businesses without experiencing financial difficulties. The use of financial technology, such as financial recording applications and digital payments, is also an important factor in improving operational efficiency and business financial transparency. By understanding financial risks and the right investment strategy, MSMEs can be wiser in managing profits and reducing potential losses. Therefore, increasing financial literacy through training and assistance from the government and related institutions is very necessary so that MSMEs in Palopo City can survive and develop sustainably.

REFERENCE

Abror Rifky Ahmad. (2023). pengaruh literasi keuangan, literasi digital dan citra merek terhadap keputusan penggunaan aplikasii FLIP pada masyrakat Surakarta.

Afifah, A. L., Hilendri Lestari, B. A., & Jumaidi, L. T. (2021). Analisis Tingkat Literasi Keuangan Dan Pengelolaan Keuangan Umkm Pada Umkm Di Kota Mataram. Jurnal Riset Mahasiswa Akuntansi, 1(4), 1–12. https://doi.org/10.29303/risma.v1i4.103

Al-Adeem, K. R. (2023). Accounting as a sustainable crafted technology for human exchange activities with nature: A defense of accounting continuity. Frontiers in Environmental Science, 11, 1165247.

Amaliyah, R., & Witiastut, R. S. (2015). Analisis Faktor Yang Mempengaruhi Tingkat Literasi Keuangan Di Kalangan Umkm Kota Tegal. Management Analysis Journal, 4(3), 252–257. https://doi.org/10.15294/maj.v4i3.8876

Arno, A., & Mujahidin, M. (2024). Enhancing Zakat Management: The Role of Monitoring and Evaluation in the Amil Zakat Agency. Jurnal Economia, 20(3), 397-418. doi:https://doi.org/10.21831/economia.v20i3.53521

Ayu, I. I. A., & Gede, I. P. S. (2020). Pengaruh Literasi Keuangan Terhadap Kinerja dan Keberlangsungan UMKM di Kota Denpasar. Warmadewa Management and Business Journal (WMBJ), 2(1), 1–9. https://ejournal.warmadewa.ac.id/index.php/wmbj

Bahiyu, E. L. U., Saerang. I. S., & Untu, V. N. (2021). Pengaruh Literasi Keuangan, Pengelolaan Keuangan Terhadap Keuangan UMKM di desa Gemeh Kabupaten Kepualauan Talaud. Jurnal EMBA : Emely Lisbet Uta Bahiu Ivonne S. Saerang Victoria N. Untu3 Jurusan Manajemen, Fakultas Ekonomi Dan Bisnis Universitas, 9(3), 1821.

Damayanti, Roni, M., Destalia, M., & Subagja, G. (2024). Pengaruh Literasi Keuangan dan Digital Marketing terhadap Kinerja UMKM yang Dimediasi oleh Financial Technology. Bulletin of Community Engagement, 4(1), 112–123. https://attractivejournal.com/index.php/bce/

Fiqran, M., Mujahidin, M., Bakri, A. N., & Abdulrahman, A. J. A. (2024). Motivation for Waqf in Millennials and Generation Z: Highlighting Religiosity, Literacy and Accessibility. IKONOMIKA, 9(2), 309-332.

Fitria, I., Soejono, F., & Tyra, M. J. (2021). Literasi keuangan, sikap keuangan dan perilaku keuangan dan kinerja UMKM. Business and Banking, 11(1), 1–15.

Hanasri, A., Rinofah, R., & Sari, P. P. (2023). Pengaruh Literasi Keuangan, Pengetahuan Keuangan, dan Sikap Keuangan Terhadap Kinerja Keuangan pada Pelaku UMKM Bisnis online di Bantul. Ekonomis: Journal of Economics and Business, 7(1), 443. https://doi.org/10.33087/ekonomis.v7i1.792

Hasan, M., Le, T., & Hoque, A. (2021). How does financial literacy impact on inclusive finance? Financial Innovation, 7(1), 40.

Hasanah, A. N., Nurbaeti, N., & Nirbita, B. N. (2023). Analisis Pemahaman Literasi Keuangan Terhadap Kinerja Dan Keberlanjutan Umkm Bidang F&B Di Kota Tasikmalaya. Jurnal Ekonomi Manajemen, 9(2), 85–95. https://doi.org/10.37058/jem.v9i2.6991

Hidayat, A. (2022). Peran Umkm (Usaha, Mikro, Kecil, Menengah) Dalam Pembangunan Ekonomi Nasional. Jurnal Inovasi Penelitian, 3(6), 6707–6714.

Hidayatullah, I. (2020). Pengaruh Inklusi Keuangan, Literasi Keuangan, Dan Kemampuan Menyusun Laporan Keuangan Terhadap Kinerja Keuangan Umkm Kabupaten Tegal. In Paper Knowledge . Toward a Media History of Documents.

Hossain, M., Yoshino, N., & Tsubota, K. (2023). Sustainable Financing Strategies for the SMEs: Two Alternative Models. Sustainability, 15(11), 8488.

Irawan, E. (2023). Literature Review : Literasi Digital , Literasi Ekonomi , Dan Inovasi Bisnis Mempengaruhi Manajemen Strategi Pemasaran Usaha Mikro Kecil Menengah. EBISMAN : EBisnis Manajemen, 1(4), 30–41.

Ishak, I., Putri, Q. A. R., & Sarijuddin, P. (2024). Halal Product Assurance at Traditional Markets in Luwu Raya Based on Halal Supply Chain Traceability. Amwaluna: Jurnal Ekonomi dan Keuangan Syariah, 8(2), 224-240.

Jubaedah Siti, D. R. (2016). Kinerja Keuangan Usaha Mikro Kecil dan Menengah di Kabupaten Cirebon Sebelum dan Sesudah Mendapatkan Pembiayaan Syariah. 2, 93–103.

K, A. ., Astuti, A. R. T. ., & ., Mujahidin. (2024). The Impact of Word of Mouth and Customer Satisfaction on Purchase Decisions: The Role of Maslahah as an Intervening Variable in the Cosmetic Products Industry in Indonesia. Journal of Ecohumanism, 3(7), 1525–1540. https://doi.org/10.62754/joe.v3i7.4307

kasendah Stephani Baby & wijayangka candra. (2019). Pengaruh Literasi Keuangan - TerhadapKinerja UMKM. Pengaruh Literasi Keuangan Terhadap Kinerja Umkm, 3(1), 1–165.

Lubis, A. (2021). PENGARUH LITERASI KEUANGAN, FINTECH PEER TO PEER LENDING DAN PAYMENT GATEWAY TERHADAP KINERJA KEUANGAN UMKM (STUDI KASUS UMKM KOTA MEDAN). Ekonomi, Koperasi Dan Kewirausahaan, 13(2). https://doi.org/10.36418/covalue.v11i1.1972

Lusardi, A., & Mitchell, O. S. (2013). The economic importance of financial literacy. Journal of Economic Literature, 52(1), 65.

Madaniyah Nur Aisyah Putri, & Hwihanus Hwihanus. (2023). Pengaruh Literasi Keuangan Terhadap Kinerja Dan Keberlangsungan UMKM Di Kota Surabaya. MASMAN : Master Manajemen, 2(1), 78–89. https://doi.org/10.59603/masman.v2i1.276

Majid, N. H. A., Omar, A. M., & Busry, L. H., Mujahidin Reviving Waqf In Higher Education Institutions: A Comparative Review Of Selected Countries. European Proceedings of Social and Behavioural Sciences.

Mujahidin, Rahmadani, N., & Putri, Q. A. R. (2024). Analysis of the Influence of Religiosity Values In Reducing Consumptive Behavior in Indonesian Muslim Consumers. Amwaluna: Jurnal Ekonomi dan Keuangan Syariah, 8(2), 253-274.

Nopiyani, P. E., & Indiani, P. R. (2023). Pengaruh Sikap Keuangan, Perilaku Keuangan Dan Literasi Keuangan Terhadap Kinerja Keuangan Umkm Pada Pemdes Ambengan. Jurnal Akuntansi Kompetif, 6(3), 411–418. https://doi.org/10.35446/akuntansikompetif.v6i3.1481

Pida, Y., & Imsar, I. (2022). Pengaruh Literasi Keuangan dan Inklusi Keuangan Terhadap Scale Up Bisnis UMKM Kota Medan Dalam Kerangka Maqashid Syariah. Jurnal Sains Sosio Humaniora, 6(2), 104–118. https://doi.org/10.22437/jssh.v6i2.22897

Pusporini, P. (2020). Pengaruh Tingkat Literasi Keuangan Terhadap Pengelolaan Keuangan pada Pelaku UMKM Kecamatan Cinere, Depok. Jurnal Ilmu Manajemen Terapan, 2(1), 58–69. https://doi.org/10.31933/jimt.v2i1.315

Putri rahma Eka, Goso, Hamid Rahmad Solling, U., & Imran. (2021). Pengaruh Literasi Keuangan, Financial Technology dan Inklusi Keuangan Terhadap Kinerja Umkm di Kota Kupang. Keuangan, 6(April), 1–15.

Putri, Q. A. R., Fasiha, F., & Rasbi, M. (2024). Affiliate marketing and intention to adopt mudarabah: The mediating role of trust in Islamic financial decision-making. JEMA: Jurnal Ilmiah Bidang Akuntansi Dan Manajemen, 21(2), 337–362. https://doi.org/10.31106/jema.v21i2.23381

Rumbianingrum, W., & Wijayangka, C. (2018). Pengaruh Literasi Keuangan Terhadap Pengelolaan Keuangan Umkm. Jurnal Manajemen Dan Bisnis (Almana), 2(3), 155.

S., M. A., Yusuf, N., & Wuryandini, ayu R. (2023). Pengaruh Literasi Keuangan Dan Financial Technology Terhadap Pengelolaan Keuangan Umkm (Studi Pada Usaha Mikro Foodcourt Limboto). Jurnal Mirai Management, 8(1), 651–659.

Sapsuha, M. U., Alwi, Z., Sakka, A. R., & Al-Ayyubi, M. S. (2024). Review of Gold Trading Practices on Credit (non-Cash) Based on Hadith. Al-Kharaj: Journal of Islamic Economic and Business, 6(3).

Sarwoto, Kurnia, A., & Dzakwan, N. (2023). Pengaruh Sikap Keuangan, Perilaku Keuangan, Literasi Keuangan dan Locus of Control Internal terhadap Keputusan Mahasiswa Berinvestasi di Pasar Modal. Prosiding Capital Market Competition, 42–59.

Setyorini, N. (2023). Pengaruh Kemampuan Literasi Akuntansi Dan Kemampuan Manajerial Terhadap Kinerja Keuangan Umkm Di Kota Madya Yogyakarta.

Susanti, A., Ismunawan, ., Pardi, ., & Ardyan, E. (2018). Tingkat Pendidikan, Literasi Keuangan, dan Perencanaan Keuangan terhadap Perilaku Keuangan UMKM di Surakarta. Telaah Bisnis, 18(1), 45–56. https://doi.org/10.35917/tb.v18i1.93

Tiento, J., & Anwar, M. (2023). Pengaruh Pengetahuan Keuangan, Financial Confidence, dan Moderasi Sumber Pendapatan terhadap Perilaku Keuangan Karyawan Swasta. Investasi Dan Syariah (EKUITAS), 5(1), 102. https://doi.org/10.47065/ekuitas.v5i1.3696

Viawan, okta, & Dilah, F. (2023). PENGARUH LITERASI KEUANGAN, PENGETAHUAN KEUANGAN DAN SIKAP KEUANGAN TERHADAP PERILAKU MANAJEMEN KEUANGAN PADA PELAKU USAHA UMKM FASHION DI KABUPATEN PASAMAN BARAT. 2504, 1–9.

Wati, A., & Yusuf. (2024). YUME : Journal of Management Pengaruh Literasi Keuangan terhadap Kinerja Keuangan UMKM di Kota Kendari dengan Moderasi Modal Sosial. 7(3), 1379–1389.

Wulandari, S., Irfan, A., Zakaria, N. B., & Mujahidin. (2024). Survey Study on Fraud Prevention Disclosure Measurement at State Islamic Universities in Indonesia. IQTISHODUNA: Jurnal Ekonomi Islam, 13(1), 327–348. https://doi.org/10.54471/iqtishoduna.v13i1.2305

Yanti, W. I. P. (2019). Pengaruh Inklusi Keuangan Dan Literasi Keuangan Terhadap Kinerja Umkm Di Kecamatan Moyo Utara. Jurnal Manajemen Dan Bisnis, 2(1). https://doi.org/10.37673/jmb.v2i1.305

Yudiaatmaja, F. (2018). ANALISIS KEMAMPUAN KEUANGAN DAERAH DAN TREND PADA PEMERINTAH KABUPATEN BULELENG. 4(2), 128–135.