

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)



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**ABSTRACT:** This research is motivated by the performance problems of MSMEs in Kewapante District-Sikka Regency from a financial perspective, customer perspective, internal business process perspective and learning and growth perspective. This research aims to determine and analyze the influence of financial literacy, financial behavior and financial inclusion on the performance of MSMEs in Kewapante District, Sikka Regency. Apart from that, this research also aims to determine and analyze the role of financial behavior variables and financial inclusion in mediating the influence of financial literacy on the performance of MSMEs in Kewapante District, Sikka Regency. This type of research is quantitative associative using a path analysis model. The population in this study was 257 MSME actors in Kewapante District, Sikka Regency. Based on the Yamane formula, the number of samples was 156 people and the determination of sample members was based on the Proportionate Random Sampling Technique. Data was collected through questionnaires and analyzed using descriptive methods and hypothesis testing was carried out using PLS (Partial Least Square). The results of the descriptive analysis show that the variables of financial literacy, financial behavior, financial inclusion and MSME performance have been well practiced by MSME actors in Kewapante District, Sikka Regency. The results of hypothesis testing show that: 1) financial literacy has a positive and insignificant effect on the performance of MSMEs, 2) financial literacy has a positive and significant effect on financial behavior, 3) financial literacy has a positive and significant effect on financial inclusion, 4) financial behavior has a positive and significant effect on significantly to the performance of MSMEs, 5) financial inclusion has a positive and significant effect on the performance of MSMEs, 6) financial behavior is able to mediate the influence of financial literacy on the performance of MSMEs, and 7) financial inclusion is able to mediate the influence of financial literacy on the performance of MSMEs.

**KEYWORDS:** Financial literacy, Financial Behavior, Financial Inclusion, MSME Performance

### I. INTRODUCTION

MSMEs are a business sector that plays a role in helping to handle problems in a country, including Indonesia. One of the important roles of MSMEs is being able to absorb labor so that the unemployment rate can be overcome and make it easier for people to start new businesses. Micro, Small and Medium Enterprises MSMEs are the main pillars in Indonesia's economic growth. Therefore, empowering MSMEs is very important in efforts to increase economic growth in Indonesia.

Micro, Small and Medium Enterprises (MSMEs) are business actors that still dominate and are a solid foundation supporting the Indonesian economy. When the economic crisis occurred in 1998 in Indonesia, large businesses collapsed but MSMEs were still able to survive. This is because MSMEs rely on circulating funds with relatively small capital so they are more agile in making innovations and new creations in business. In the current era, MSMEs are numerous and exist in almost all regions in Indonesia. Apart from having a flexible business nature in facing danger, MSMEs are also able to adapt to the current market.

Sikka Regency is one of the regencies in East Nusa Tenggara which helps develop Micro, Small and Medium Enterprises (MSMEs) as an important source of creating job opportunities and the main driving force for regional economic development. Based on data from the Trade and Cooperatives Service, Sikka Regency SMEs have increased in the last four years. The number of MSMEs from year to year always increases, namely in 2017 there were 4,560 MSMEs until in 2022 it increased to 5,983 MSMEs. However, if we look at the percentage growth of MSMEs, it can be seen that from 2017 to 2020 there has been a decline and will increase quite significantly in 2022.

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

Behind the fairly good contribution of MSMEs to the creation of job opportunities and the main driving force of Sikka Regency's economic development, it turns out that this sector still has a lot of very basic problems. MSMEs in Sikka Regency are still weak in business management capabilities, the quality of human resources (HR) is still limited, and weak access to financial institutions, especially banking. This problem is what causes the failure of MSME businesses in Sikka Regency. The total number of MSMEs in Sikka Regency, Flores, NTT is 5,965 with a total of 248 MSME failures or 4.16%. If we look at the number of MSMEs and MSME failures that occur in Sikka Regency, then there are three subdistricts where the percentage of business failures is above 10%, namely Subdistrict Alok (10.74%), Nita District (11%) and Kewapante District (12.59%). In this research, researchers focused more on conducting research in Kewapante District because the percentage of failure rate for MSME businesses was greater compared to other sub-districts in Sikka Regency.

Kewapante District is one of the sub-districts in Sikka Regency which in its development has not been spared from the ups and downs of MSME activities. According to data from Kewapante District in 2022, the number of MSMEs in Kewapante District will be 294 MSMEs. There are 21 types of businesses in Kewapante District. Most of them are grocery business as much 78 businesses (26.53%), ikat weaving as many as 42 businesses (14.29%) and fish trading as many as 30 businesses (10.20%). As a business activity, it is hoped that the existence of MSMEs in Kewapante District will not last for just one period, but can develop and be sustainable. For this reason, MSME players are required to know the achievements of their business performance so they can plan their business processes.

MSME performance describes the results or level of success that have been achieved by MSME actors in running their business (Kore & Septarini, 2018). The performance of Micro, Small and Medium Enterprises (MSMEs) is very important to improve business and business competitiveness. Performance is generally used as an indicator to measure a company's health during a certain period. Good performance will improve your business even better. This is in accordance with the opinion of Alimudin, et al. (2019) which states that to measure the performance of MSMEs, indicators are used based on the following four perspectives: financial perspective, customer perspective, internal business process perspective and learning and growth perspective.

Based on the previous explanation, to see what the actual conditions are regarding The performance of MSMEs in Kewapante District was carried out by distributing questionnaires to 30 MSME actors. Based on the distribution of the questionnaire, data was obtained as shown in the following table:

**Table 1. Results of the Pre-Survey Questionnaire on MSME Performance in Kewapante District**

No	Indicator	Item No	% Total Score	% Gap
1	Financial Perspective	1-3	63.33	36.67
2	Customer Perspective	4-6	74.00	26.00
3	Internal Business Process Perspective	7-9	67.11	32.89
4	Learning and Growth Perspective	10-12	75.33	24.67
<b>% Total Score &amp; Variable Category</b>			<b>69.94</b>	<b>30.06</b>

**Source:** Results of 2023 pre-survey questionnaire data processing

Based on table 1 it can be known that MSME performance in Kewapante District not maximal. This can be seen from the total score obtained at 69.94%. According to Narimawati (2007), research problems can be measured from the overall percentage (100%) minus the percentage of respondents' responses. The result of this reduction is the percentage of the gap that is the problem to be studied. Thus there is a gap of 30.06% problem performance of MSMEs in Kewapante District, Sikka Regency.

Furthermore, the MSME performance variable in Kewapante District consists of four indicators, two of which have a gap of more than 30%, namely: Financial Perspective (36.67%), and Internal Business Process Perspective (32.89%). These results are in accordance with the results of interviews which show that there are several MSME players who have not been able to increase product sales, have not been able to increase company profits and have not been able to carry out cost efficiency. The results of the interviews also showed that there were several MSME actors who were unable to manage the stock of goods sold, were unable to maintain the quality of the goods and were unable to maintain sales continuity.

In general, MSMEs often experience delays in their development. This is due to various conventional problems that have not been completely resolved (closed loop problems), such as problems with HR capacity, ownership, financing, marketing and various other problems related to business management, making it difficult for MSMEs to compete with large companies. MSMEs in the creative industry tend to have a short-term orientation in making decisions in their business. This can be seen from the absence of a concept of sustainable innovation and inconsistent core business activities. In the end, the long-term performance development of MSMEs operating in the creative industries tends to be stagnant and not well directed. Therefore, strategic efforts

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

are needed to improve the performance and sustainability of MSMEs. One way that can be done is by enriching the knowledge of MSME players regarding financial knowledge so that their management and accountability can be better accounted for like large companies. (Aribawa, 2016).

Based on several studies on financial knowledge still found low levels of financial literacy among business people. Lack of financial literacy will cause a person to be more likely to have problems with debt, be involved with higher credit costs and be less likely to plan for the future (Syriac & Ramadan, 2017). Financial literacy has recently become a hotly discussed issue in Indonesia. This issue emerged due to various polemics that occurred, starting from the ASEAN Economic Community (AEC) to the economic crisis that hit Indonesia in 1998. At this time, financial literacy is important and a necessity for the wider community, so that people are required to know and understand financial literacy. (Purnama & Yuliafitri, 2019). In high-income countries, financial literacy is considered a complement to consumer protection. Whereas in low-income countries, financial reach is much more limited, the role of financial literacy will help developing countries to focus more on increasing financial access and financial services (Sanistasya et al., 2019).

Financial literacy is closely related to financial management. The higher a person's level of financial literacy, the better the person's financial management. Financial literacy is defined as a person's intelligence or ability to manage their finances. Financial literacy is a must for every individual to avoid financial problems because individuals are often faced with a trade off, namely a situation where a person has to sacrifice one interest for the sake of another. Trade off problems occur because a person is limited by his financial ability (income) to obtain all the goods he wants. Financial literacy affects almost all aspects related to planning and spending money such as income, credit card use, savings, investment, financial management and financial decision making (Laily, 2016).

Based on the National Financial Literacy Survey (SNLIK) conducted by the Financial Services Authority (OJK) in 2019, it was found that the financial literacy index (financial understanding) of the community, including MSMEs, was still very low, namely 38.03%. This low level of financial literacy refers to the Chen & Volpe measure, the level of financial literacy is in the relatively high category if the value is more than 80%; the level of financial literacy in the medium category is between 60% - 79%; while the financial literacy level is in the low category if the value is below 60%. So for this reason, the existence of literacy needs to be a serious concern for MSME players so that the business activities they carry out have a positive impact on the development of their business in both the short and long term (Dahrani et al, 2022).

Apart from financial literacy, another factor that really determines the performance of MSMEs is financial behavior. The profitability of micro and small businesses really depends on the financial decisions made by the owner, from financing to working capital management and savings decisions. Given that Micro and small Enterprises have a significant impact on economic activities in most countries, low financial skills or poor financial behavior may have an adverse effect on the future of the business. Good financial behavior leads to competitiveness in the global economy and bad behavior will lead to business closures. It has been argued that a good financial foundation of a business owner is a significant benchmark and constitutes a good financial foundation of a company's success and growth in a competitive environment. (Fitria et al, 2021).

Financial Behavior is individual behavior that is related to the world of finance starting from financial knowledge, financial planning and management to self-control and financial decision making (Fadilah & Purwanto, 2022). Financial behavior relates to how a person treats, manages and uses the financial resources available to him. Individuals who have responsible financial behavior tend to be effective in using the money they have, such as making a budget, saving money and controlling spending, investing, and paying obligations on time. (Susanti & Ardyan, 2018). Financial difficulties are not only caused by low income, but financial difficulties can also arise if there are errors in financial management such as misuse of credit, lack of financial planning and not having savings (Yanti, 2019).

Good financial behavior among MSME players is needed to make financial decisions and help them get out of financial problems. Financial difficulties arise not only because of a decrease in income, but can also occur due to errors in financial management, for example errors in using credit and lack of financial planning (Andriyani & Sulistyowati, 2021). Mistakes in using credit and the absence of financial planning for MSMEs in Kewapante District can cause business failure.

Apart from financial literacy and financial behavior, another factor that really determines the performance of MSMEs is financial access or financial inclusion. People have obstacles in accessing financial institutions. The high number of unbankable people is due to the poverty gap between provinces, low MSME financing, high micro credit interest rates, asymmetric information, inadequate MSME management capabilities, bank monopoly in the micro sector, and limited distribution channels for financial services. This is the reason for the urgency of implementing financial inclusion (Septiani & Wuryani, 2020).

The comparison of financial access is very different between developed and developing countries. In developed countries only 8% of the population does not have access to finance, while in developing countries it still reaches 59% of the population.

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

Meanwhile, in Indonesia only 20% of the Indonesian population aged over 15 years have access to the financial sector (Fun, 2022). Barriers to access for the Indonesian people are caused by the public's lack of knowledge of the functions of financial institutions and the incompatibility of the products offered by financial institutions with the needs of low-income people (Dienillah & Anggraeni, 2016).

Access to finance and financial management have been identified in many business surveys as the most important factors in determining the survival and growth of SMEs. Access to finance enables SMEs in developing countries to make productive investments to develop their businesses and acquire the latest technologies, thereby ensuring their competitiveness, and driving innovation, macroeconomic resilience, and GDP growth. Providing credit to micro businesses encourages economic growth in the informal sector through increasing business capitalization, creating job opportunities and long-term income growth (Geriadi et al., 2021).

Financial inclusion has the aim of encouraging inclusive growth through reducing poverty rates, increasing development or equal distribution of finances, as well as increasing financial system stability. Financial inclusion is an activity to eliminate all forms of price and non-price barriers to access to financial services, so that people can improve their standard of living. The benchmark for financial inclusion is known from ownership of savings accounts, insurance, payment services and credit from non-formal financial institutions (Septiani & Wuryani, 2020).

The variables financial literacy, financial behavior and financial literacy are very influential on the performance of MSMEs. However, based on several previous studies, there are differences in research results between the variables of financial literacy, financial behavior and financial literacy on the performance of MSMEs. The differences in the results of this research indicate the existence of a Research Gap which indicates the existence of inconsistencies in research results as shown in Table 2 as follows:

**Table 2. Summary of research gaps**

No	Variable Relationships	Research result	Researcher
1	The Influence of Financial Literacy on MSME Performance	Positive and significant influence Has a positive and insignificant effect	Sanistasya, et al (2019); Kasenda & Wijayangka, (2019); Kusuma et al (2022);Joko (2022) Fitria et al, (2021)
2	The Influence of Financial Behavior on MSME Performance	Positive and significant influence Has a positive and insignificant effect	Asminet al, (2021), Sanistasya et al, (2021),Ummah et al (2021), Rusnawati & Saharuddin (2022) Fitria et al, (2021)
3	The Effect of Financial Inclusion on MSME Performance	Positive and significant influence Has a positive and insignificant effect Has a negative and insignificant effect	Sanistasya et al (2019), Geriadi et al (2021); Kusuma et al (2022);Joko (2022) Hilmawati & Kusumaningtias (2021), Sanistasya, et al (2019), Wardani (2022)
4	The Influence of Financial Literacy on Financial Behavior	Positive and significant influence Has a positive and insignificant effect	Anisyah et al (2021),Andriyani & Sulistyowati (2021), Sufyati & Lestari (2022), Meldya et al (2021), Muntanganah (2021)
5	The Influence of Financial Literacy on Financial Inclusion	Positive and significant influence Has a positive and insignificant effect	Ancient(2020), Nainggolan (2023), Dahrani et al (2022), Inayah(2021), Amriani et al, (2023)
6	The role of financial behavior as a mediator between financial literacy and MSME performance	Able to mediate Unable to mediate	Ermawati et al (2019), Yulianto & Rita (2023). Purwidiandi & Tubastuvi (2019),
7	The role of Financial Inclusion as a mediator between financial literacy and MSME performance	Able to mediate Unable to mediate	Dahrani et al (2022), Andriyani & Mulyanto (2022), Nainggolan (2023)

**Source:** Research Gap Previous Research

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

Based on table 2, it shows that there has been a research gap, therefore the differences in research results need to be further clarified in the empirical evidence findings and this is a gap for clarity of research results. The inconsistencies in the research results provide a gap for further research to be carried out by proposing solutions in the form of mediating or intervening variables. This research places financial behavior variables as mediation between financial inclusion variables and MSME performance variables and between financial literacy and financial performance.

### **II. THEORETICAL REVIEW**

#### **A. BUSINESS PERFORMANCE**

The continued growth of small businesses is very important because seeing the economic role played by small businesses significantly encourages increased output and income levels. Business performance is the final result of business activities achieved by business actors during a certain period. (Sanistasya, et al., 2019). Furthermore, Darya (2012) stated that the performance of micro and small businesses is the results achieved by small entrepreneurs from running their businesses which are measured from financial, customer, internal business and learning and growth aspects.

#### **B. FINANCIAL LITERACY**

The development of the financial services industry is increasing and becoming more complex, thereby changing financial market conditions. Therefore, someone needs to understand basic financial knowledge related to the keys to modern financial security (Mandell and Klein, 2007: 105). The concept of financial literacy, which includes knowledge of financial concepts, the ability to understand communication regarding financial concepts, skills in managing personal/company finances and the ability to make financial decisions in certain situations (Aribawa, 2016).

#### **C. FINANCIAL BEHAVIOR**

Behavioral finance has been established as a new branch of theory in finance by combining knowledge of psychology, sociology and other social sciences. Behavioral finance is a study that examines how psychological phenomena influence financial behavior. Behavioral finance studies how humans actually behave in financial decisions. (Dai, et al., 2019: 58). Behavioral finance is a new paradigm of financial theory, this theory seeks to make it easier to understand and predict systematic financial markets. This theory has implications when someone makes decisions psychologically. Simply put, behavioral finance focuses on the concept of human behavior from the perspective of psychology which influences individual human decisions. Psychology can also be called the psychology of money (Asyik, 2022: 7).

#### **D. FINANCIAL INCLUSION**

Currently, financial inclusion is a target that must be achieved by all countries. Financial inclusion is believed to have a positive impact on economic growth and people's welfare. Therefore, studies and discussions about the importance of financial inclusion for economic growth and social welfare have become a new topic and are attracting the attention of researchers. Financial inclusion is a condition where every member of society has access to effective, efficient and quality financial services (Risman et al, 2023). Based on Presidential Regulation Number 82 of 2016 concerning the National Strategy for Financial Inclusion, what is meant by financial inclusion is a condition where every member of society has access to various quality formal financial services in a timely, smooth and safe manner at affordable costs in accordance with their needs and abilities in order to improve public welfare. Financial inclusion is defined as a process that facilitates access, availability and benefits of the formal financial system for all economic actors. Financial Inclusion is an inclusive financing scheme with the main aim of providing a wide range of financial services without price or non-price barriers in their use (Timuneno et al., 2023).

### **III. RESEARCH METHODS**

#### **A. Population and Sample**

The population in this study was 294 MSME actors in Kewapante District, Sikka Regency, and 37 MSME actors in failure. The researcher took all MSME actors in Kewapante District, Sikka Regency. There are 257 active MSME players. Based on Yamane's (1973) formula in Ferdinand (2014: 174), the number of samples in this research was 156 MSME actors in Kewapante District, Sikka Regency.

#### **B. Operational Definition of Variables**

So that do not give rise to different interpretations, then these variables are operationalized as follows:

- 1) MSME performance (KU) is the final result of business activities achieved by MSME actors in Kewapante District, Sikka Regency during a certain period which is measured from financial, customer, internal business and learning and growth aspects. This

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

variable according to Alimudin, et al. (2019: 7) has indicators of financial perspective, customer perspective, Internal Business Process Perspective and Learning and Growth Perspective.

- 2) Financial Literacy (LK) is the ability of MSME actors in Kewapante District, Sikka Regency to read, analyze, manage and communicate financial conditions that affect their welfare. Financial literacy is measured from general knowledge about finance, savings and loans, insurance and investment. According to O'Neill and Xiao (in Fitriani and Widodo, 2020: 313), this variable has indicators: budget, spending, and saving.
- 3) Financial Behavior (PK) is financial behavior related to the behavior carried out by MSME actors in Kewapante District, Sikka Regency in managing their personal finances. According to Chen and Volpe (in Fardhansyah, 2020:11), this variable has the following indicators: General knowledge of finance, Savings and loans, insurance and investment.
- 4) Financial Inclusion (IK) is a condition where every MSME actor in Kewapante District, Sikka Regency has access to various quality formal financial services in a timely, smooth and safe manner at affordable costs according to their needs and abilities in order to improve the welfare of MSME actors. According to Bank Indonesia, (2014) (in Risman et al., 2023: 93) this variable has the following indicators: availability/access, use, quality and welfare.

### C. Data Analysis Techniques

Data analysis in this research was carried out using PLS (Partial Least Square) and the data was processed using the Smart PLS program. According to Ghozali and Latan (2015:7) the PLS measurement model consists of a measurement model (outer model), Goodness of fit (GoF) criteria and a structural model (inner model). PLS aims to test the predictive relationship between constructs by seeing whether there is an influence or relationship between the constructs.

## IV. RESULTS AND DISCUSSION

### 1) Evaluation of the Measurement Model (Outer Model)

#### a) Convergent Validity

Convergent validity is related to the principle that the measures (manifest variables/statement items) of a construct should be highly correlated. A statement item is considered convergently valid if its loading factor is greater than 0.7 (Latan and Ghozali, 2012:38)

**Table 3. Convergent Validity Test Results Based on Loading Factor Values**

Indicator	Variable				Information
	Financial Inclusion	MSME performance	Financial Literacy	Behavioral Finance	
IK1	0.794				Valid
IK2	0.821				Valid
IK3	0.781				Valid
IK4	0.773				Valid
KU1		0.823			Valid
KU2		0.835			Valid
KU3		0.854			Valid
KU4		0.810			Valid
LK1			0.826		Valid
LK2			0.836		Valid
LK3			0.750		Valid
LK4			0.756		Valid
PK1				0.855	Valid
PK2				0.825	Valid
PK3				0.775	Valid

**Source:** Primary data processed.

The results of processing using Smart PLS can be seen in table 29. The outer model value or correlation between the construct and the variables has met convergent validity because it has a loading factor value of 0.70. In conclusion, the construct for all variables can be used to test hypotheses.

Apart from looking at the loading factor of each indicator, convergent validity can also be seen from the Average Variance Extracted (AVE) value where the instrument is considered convergently valid if the AVE value is > 0.50. The results of the analysis show that all variables have an AVE value > 0.50) so it can be concluded that the instruments for all variables are valid.

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

**Table 4. Convergent Validity Test Results Based on AVE Values**

Variable	Average Variance Extracted (AVE)	Conclusion
Financial Inclusion	0.628	Valid
MSME performance	0.689	Valid
Financial Literacy	0.629	Valid
Behavioral Finance	0.671	Valid

Source: Primary data processed.

Based on table 4, it can be concluded that all constructs meet the validity criteria, this is indicated by the AVE value > 0.50 as the recommended criteria.

### b) Discriminant Validity

Discriminant validity is related to the principle that measures (manifest variables/question items) of different constructs should not be highly correlated. According to Latan and Ghozali (2012:37) Discriminant validity can be tested by looking at the cross loading value for each variable which must have a value > 0.7 and greater than all other constructs. After eliminating statement items that do not meet the construct validity criteria, a discriminant validity test is then carried out with the following results:

**Table 5. Discriminant Validity Test Results Based on Values Cross Loading**

Indicator	Variable			
	Financial Inclusion	MSME performance	Financial Literacy	Behavioral Finance
IK1	<b>0.794</b>	0.517	0.275	0.279
IK2	<b>0.821</b>	0.597	0.290	0.334
IK3	<b>0.781</b>	0.521	0.239	0.365
IK4	<b>0.773</b>	0.508	0.244	0.249
KU1	0.560	<b>0.823</b>	0.280	0.465
KU2	0.577	<b>0.835</b>	0.353	0.507
KU3	0.566	<b>0.854</b>	0.398	0.548
KU4	0.550	<b>0.810</b>	0.307	0.468
LK1	0.237	0.358	<b>0.826</b>	0.410
LK2	0.296	0.316	<b>0.836</b>	0.420
LK3	0.236	0.330	<b>0.750</b>	0.407
LK4	0.284	0.276	<b>0.756</b>	0.377
PK1	0.412	0.565	0.478	<b>0.855</b>
PK2	0.227	0.482	0.396	<b>0.825</b>
PK3	0.298	0.409	0.365	<b>0.775</b>

Source: Primary data processed.

Based on table 5, it shows that all manifest variables/question items have a cross loading value of > 0.7. Apart from that, the loading factor value for the indicators of the latent variable has a loading factor value that is greater than the loading value of other latent variables. This means that the latent variable has good discriminant validity.

### c) Reliability Test

In PLS analysis, testing the reliability of a construct can be done in two ways, namely Cronbach Alpha and Composite Reliability. A group of indicators that measure a variable has good composite reliability if it has Cronbach Alpha and composite reliability  $\geq 0.7$ .

**Table 6. Reliability Test Results Based on Cronbach's Alpha and Composite values Reliability**

Variable	Cronbach's Alpha	Composite Reliability	Conclusion
Financial Inclusion	0.803	0.871	Reliable
MSME performance	0.850	0.899	Reliable
Financial Literacy	0.802	0.871	Reliable
Behavioral Finance	0.756	0.859	Reliable

Source: Primary data processed.

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

Table 6 shows that all variables have Cronbach Alpha and composite reliability  $\geq 0.7$ , so it can be concluded that the instruments for all variables are reliable.

### 2) Structural Model Test or Inner Model Evaluation

After testing the outer model, the next step is to test the inner model. Testing of the inner model or structural model is carried out to see the relationship between constructs, significance values and R-square of the research model.

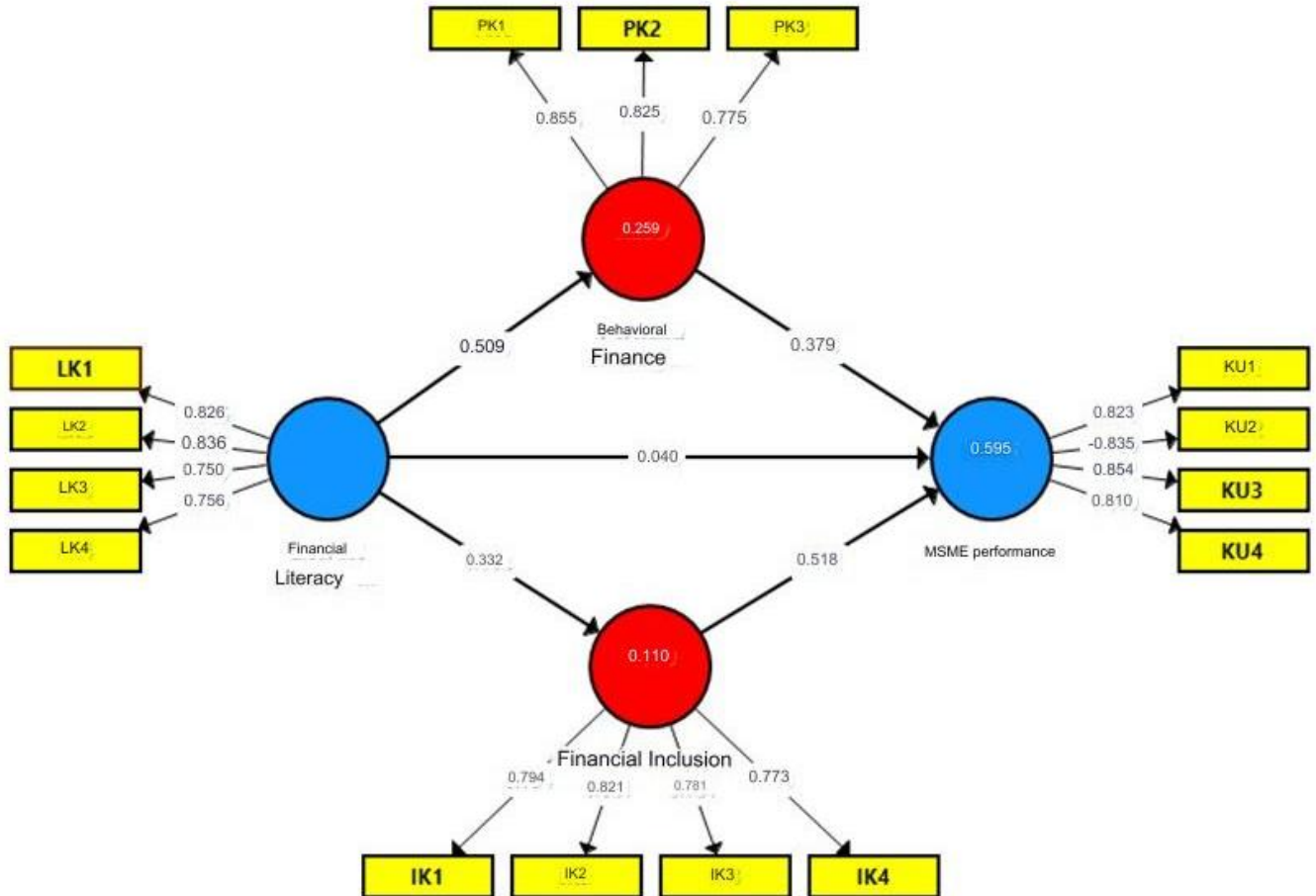


Figure 4 Structural Model

Source: Primary data processed.

Evaluation of the PLS structural model begins by looking at the R-square of each dependent latent variable. The table below is the result of R-square estimation using PLS.

Table 7. Goodness of Fit Test Results

Variable	R Square	Percentage (%)
Financial Inclusion	0.110	11.00
MSME performance	0.595	59.50
Behavioral Finance	0.259	25.90

Source: Primary data processed.

Based on table 7 above, it shows the  $R^2$  (R-square) value for the Financial Behavior variable of 0.259 or 25.90%. This value indicates that the Financial Behavior variable can be explained by the Financial Literacy variable of 25.90%. Meanwhile, the remaining 74.10% is explained by other variables not included in the research. The  $R^2$  value for the MSME Performance variable is 0.595 or 59.50%. This value indicates that this variable can be explained by the variables Financial Literacy, Financial Inclusion and Financial Behavior of 59.50% while the remaining 40.50% is explained by other variables not included in the research. Next is the  $R^2$  (R-square) value for the variable Financial Inclusion as big as 0.110 or 11.00%. This value indicates that the variable Financial



## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

Inclusion can be explained by the Financial Literacy variable of 11.00%. Meanwhile, the remaining 89.00% is explained by other variables not included in the research.

Apart from that, to measure whether or not the model can be predicted, it can be measured through Q-Square ( $Q^2$ ). If Q-Square is more than 0, it means the model can be predicted. Meanwhile, if the model is  $\leq 0$  then the model cannot be predicted. The respective  $R^2$  values in this study are  $R^2_1$  of 0.445 and  $R^2_2$  of 0.643. The following are the results of the Q-Square calculation in this research:

$$Q^2 = 1 - (1 - R^2_1)(1 - R^2_2)(1 - R^2_3)$$

$$Q^2 = 1 - (1 - 0,110)(1 - 0,595)(1 - 0,259)$$

$$Q^2 = 1 - (0,890)(0,405)(0,741)$$

$$Q^2 = 1 - 0,267$$

$$Q^2 = 0,733$$

Based on the  $Q^2$  test above, the predictive relevance value is 0.733 or 73.3%. This indicates that the model is considered feasible, because the diversity of data can be explained by the model by 73.3%. Meanwhile, the remaining 26.7% is explained by other variables that have not been explained in the research model or errors.

The  $Q^2$  result of 73.3% shows that the PLS model formed is good, because it is able to explain 73.3% of the total information.

### 3) Hypothesis test

Testing the structural relationship model serves to explain the variables in the research. Structural model testing was carried out via the t test. The basis used to test the hypothesis directly (direct effect) is the output image and the values contained in the output path coefficients. Furthermore, the basis used to test the hypothesis indirectly (indirect effect) is the image output and the values contained in the bootstrapping output of the specific indirect effect column.

To see whether a hypothesis can be accepted or rejected, include paying attention to the significance values between constructs, t-statistics and p-values. This research hypothesis testing was carried out with the help of SmartPLS (Partial Least Square) 3.0 software. These values can be seen from the bootstrapping results. The rule of thumb used in this research is a t-statistic  $> 1.96$  with a significance level of p-value of 0.05 (5%). The following are the results of hypothesis testing from the Bootstrapping test presented in the image below:

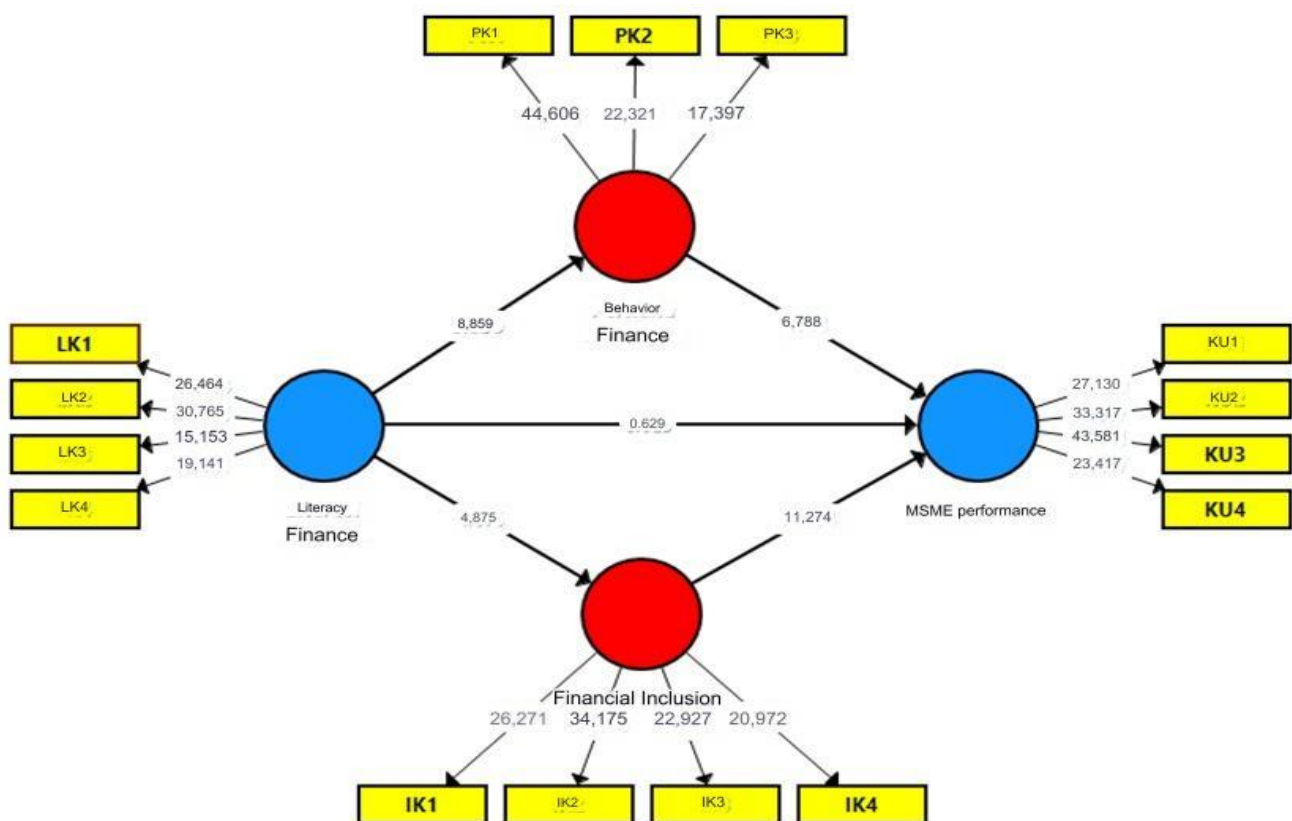


Figure 5. Bootstrapping Test Results

Source: Primary data processed.

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

Direct influence (Direct Effect) is an influence that can be seen from the path coefficient from one variable to another variable. The results of testing the direct influence hypothesis can be presented in the following table:

**Table 8. Path Coefficients**

Variable Relationships	Hypothesis	Original Sample	t-Statistics	P Values	Information
Financial Literacy -> MSME Performance	H1	0.040	0.629	0.529	Positive Not Significant
Financial Literacy -> Financial Behavior	H2	0.509	8,859	0,000	Significant Positive
Financial Literacy -> Financial Inclusion	H3	0.332	4,875	0,000	Significant Positive
Financial Behavior -> MSME Performance	H4	0.379	6,788	0,000	Significant Positive
Financial Inclusion -> MSME Performance	H5	<b>0.518</b>	<b>11,274</b>	<b>0,000</b>	<b>Significant Positive</b>

Source: Primary data processed.

Furthermore, based on table 8, the description of the Direct Effect hypothesis testing from this research is as follows:

- a. H1 Rejected: The research results show that there is a positive and insignificant relationship between the Financial Literacy variable and the MSME Performance Variable. The direction of the relationship can be seen from the Original Sample value of 0.040. Significance is shown by the t-statistic number of 0.629 which is smaller than the t-table (1.96). The research p value of 0.529 also does not meet the predetermined standard, namely (<0.05). The interpretation of the results of this research is: there is an insignificant influence between Financial Literacy on MSME Performance, the better Financial Literacy, the less significant increase in MSME Performance will be.
- b. H2 Accepted: The research results show that there is a positive and significant relationship between the Financial Literacy variable and the Financial Behavior Variable. The direction of the relationship can be seen from the Original Sample value of 0.509. Significance is shown by the t-statistic number of 8,859 which is greater than the t-table (1.96). The research p value of 0.000 also meets the predetermined standards, namely (<0.05). The interpretation of the results of this research is: there is a significant influence between Financial Literacy on Financial Behavior, the better Financial Literacy, the greater the financial Behavior will be followed by a significant increase.
- c. H3 Accepted: The research results show that there is a positive and significant relationship between the Financial Literacy variable and the Financial Inclusion variable. The direction of the relationship can be seen from the Original Sample value of 0.332. Significance is shown by the t-statistic number of 4,875 which is greater than the t-table (1.96). The research p value of 0.000 also meets the predetermined standards, namely (<0.05). The interpretation of the results of this research is: there is a significant influence between Financial Literacy and Financial Inclusion, the better the Financial Literacy, the more significant the Financial Inclusion will be.
- d. H4 Accepted: The research results show that there is a positive and significant relationship between the Financial Behavior variable and the MSME Performance Variable. The direction of the relationship can be seen from the Original Sample value of 0.379. Significance is shown by the t-statistic number of 6,788 which is greater than the t-table (1.96). The research p value of 0.000 also meets the predetermined standards, namely (<0.05). The interpretation of the results of this research is: there is a significant influence between Financial Behavior on MSME Performance, the better the Financial Behavior, the more significant the MSME Performance will be.
- e. H5 Accepted: The research results show that there is a positive and significant relationship between the Financial Inclusion variable and the MSME Performance Variable. The direction of the relationship can be seen from the Original Sample value of 0.518. Significance is shown by the t-statistic number of 11,274 which is greater than the t-table (1.96). The research p value of 0.000 also meets the predetermined standards, namely (<0.05). The interpretation of the results of this research is: there is a significant influence between Financial Inclusion on MSME Performance, the better Financial Inclusion will be followed by a significant increase in MSME Performance.

Intervening variables are variables that theoretically influence the relationship between exogenous variables and endogenous variables into an indirect relationship. The results of hypothesis testing of indirect influence through Financial Behavior as an intervening variable can be presented in the following table:

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

**Table 9. Specific Indirect Effects**

Variable Relationships	Hypothesis	Original Sample	t-Statistics	P Values	Information
Financial Literacy -> Financial Behavior -> MSME Performance	H6	0.193	5,101	0,000	Significant Positive
Financial Literacy -> Financial Inclusion -> MSME Performance	H7	0.172	4,302	0,000	Significant Positive

**Source:** Primary data processed.

Based on table 9, the description of hypothesis testing from this research is as follows:

- H6 Accepted:** The research results show that there is a positive and significant relationship between the Financial Literacy variable and the MSME Performance Variable through Financial Behavior. The direction of the relationship can be seen from the Original Sample value of 0.193. Significance is shown by the t-statistic number of 5,101 which is greater than the t-table (1.96). The research p value of 0.000 also meets the predetermined standards, namely (<0.05). The interpretation of the results of this research is: there is a significant influence between Financial Literacy on MSME Performance through Behavioral Finance. To determine the mediating effect of the Financial Behavior variable, this is done by looking at the path coefficient where the direct effect is not significant while the indirect effect is significant so that the mediation effect is full mediation.
- H7 Accepted:** The research results show that there is a positive and significant relationship between the Financial Literacy variable and the MSME Performance Variable through Financial Inclusion. The direction of the relationship can be seen from the Original Sample value of 0.172. Significance is shown by the t-statistic number of 4,302 which is greater than the t-table (1.96). The research p value of 0.000 also meets the predetermined standards, namely (<0.05). The interpretation of the results of this research is: there is a significant influence between Financial Literacy on MSME Performance through Financial Inclusion. To determine the mediating effect of the Financial Inclusion variable, this is done by looking at the path coefficient where the direct effect is not significant while the indirect effect is significant so that the mediation effect is full mediation.

#### 4) DISCUSSION

##### 5) The Influence of Financial Literacy on the Performance of MSMEs in MSMEs in Kewapante District, Sikka Regency

Based on the results of the hypothesis tester, it can be concluded that there is a positive and insignificant influence of Financial Literacy on MSME Performance, as shown by the p value of 0.529 which is greater than 0.05. A positive influence can be interpreted as if Financial Literacy increases, the performance of MSMEs will increase. Having an insignificant effect can be interpreted as if Financial Literacy increases, the performance of MSMEs will increase with an insignificant increase. Thus the first hypothesis (H1) which states that Financial Literacy has a significant effect on MSME Performance among MSME actors in Kewapante District, Sikka Regency is rejected.

The results of this study do not match the statement Rusnawati & Saharuddin (2022: 255) which states that the higher the literacy level of an MSME, the higher the level of performance it obtains. In this research, financial literacy has an insignificant effect on MSME performance among MSME actors in Kewapante District, Sikka Regency. According to observations, MSME actors in Kewapante District, Sikka Regency still have limited ability to read, analyze and manage investments. This is due to the low level of education of business actors where 42.32% of respondents have elementary and middle school education. This condition results in the low ability of business actors to read, analyze and manage financial investments which ultimately has an impact on the performance of MSMEs, especially on indicators from an internal business process perspective. If business people are not able to read and analyze finances well, they may make unwise investment decisions. This can result in inefficient resource allocation and unnecessary expenditure, which can ultimately damage the financial performance of MSMEs.

The results of this research are not in line with several empirical evidence from previous research, including research conducted by: Sanistasya, et al (2019); Kasenda & Wijayangka, (2019); Kusuma et al (2022); Joko (2022) whichable to prove that financial literacy has a positive and significant effect on MSME performance. Furthermore, this research supports research conducted by Fitria et al, (2021) which shows that financial literacy has a positive and insignificant effect on the performance of MSMEs.

##### 6) The Influence of Financial Literacy on the Financial Behavior of MSMEs in Kewapante District, Sikka Regency

Based on the results of hypothesis testing, it can be concluded that there is a positive and significant influence of Financial Literacy on Financial Behavior, as shown by the p value of 0.000, which is smaller than 0.05. A positive influence can be interpreted as if Financial Literacy increases, Financial Behavior will improve. Having a significant influence can be interpreted as if Financial Literacy increases, Financial Behavior will increase with a significant increase. Thus the second hypothesis (H2) which states that

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

Financial Literacy has a significant effect on the Financial Behavior of MSME actors in Kewapante District, Sikka Regency is accepted.

The results of this research are in accordance with the statement Napitupulu et al (2021: 139) who state that there are many factors that underlie the emergence of financial management behavior that is applied in everyday life, one of which is financial literacy. Literacy can be obtained through various sources such as education, text books, seminars and so on. Financial literacy has a strong influence on the financial behavior of MSME players. By improving financial understanding and skills, MSMEs can manage their finances better, make more informed decisions, and achieve long-term success in their business.

In this research, Financial Literacy has a significant effect on the Financial Behavior of MSMEs in Kewapante District, Sikka Regency. According to observations, MSME actors in Kewapante District, Sikka Regency often take part in training organized by the Trade, Cooperatives, Small and Medium Enterprises Office of Sikka Regency. The impact of this training is a change in the financial behavior of MSMEs in Kewapante District, especially from the aspects of budget, spending and savings. Budget management helps MSMEs to control their expenses, avoid waste, and ensure that the available money is used efficiently. MSMEs can closely monitor how business actors manage their money, including operational costs and inventory purchases. Apart from that, MSME players must have a good savings strategy to address urgent needs and long-term investments such as business expansion, equipment repairs, or dealing with emergency situations.

The results of this research are in line with several empirical evidence from previous research relating to the influence of Financial Literacy on Financial Behavior, including research conducted by: Anisyah et al (2021), Andriyani & Sulistyowati (2021), Sufyati & Lestari (2022). This research is able to prove that Financial Literacy has a significant effect on Financial Behavior.

MSME actors in Kewapante District, Sikka Regency must be able to improve Financial Behavior by increasing Financial Literacy. Financial Behavior Indicators that are a priority for improvement are: Budget. To be able to improve Financial Behavior, there needs to be improvement in Financial Literacy MSME actors in Kewapante District, Sikka Regency especially improvements to several Financial Literacy indicators. Financial Literacy indicators that are a priority to improve are: 1) General knowledge about finance and 2) Investment.

The financial behavior indicator that is a priority to improve is the budget. Budgeting is a financial planning and management process that is very important in achieving better financial goals. By having a good budget, a person can manage their expenses, avoid excessive debt, and allocate funds wisely. To improve financial behavior, improving financial literacy among MSME players is also needed. Financial literacy refers to a person's knowledge and understanding of financial concepts and principles. In this context, there are two indicators of financial literacy that are priorities for improvement, namely:

- a. General knowledge about finance: MSME players in Kewapante District, Sikka Regency need to understand basic financial concepts, such as managing income and expenses, financial planning, budgeting and debt management. With adequate knowledge of this concept, they will be better able to manage their finances well and make smart financial decisions.
- b. Investment: MSME players in Kewapante District, Sikka Regency also need to increase their financial literacy regarding investment. They must understand the various investment instruments available, the risks and potential returns associated with each instrument, and how to develop a balanced investment portfolio. With better investment knowledge, they can make smarter investment decisions and increase their financial growth.

By increasing financial literacy in terms of general knowledge about finance and investment, MSME players in Kewapante District, Sikka Regency will have a better understanding of financial concepts and be able to make better decisions in managing their finances. This can contribute to improving their overall financial behavior.

### **7) The Influence of Financial Literacy on the Financial Inclusion of MSMEs in Kewapante District, Sikka Regency**

Based on the results of hypothesis testing, it can be concluded that there is a positive and significant influence of Financial Literacy on Financial Inclusion, as shown by the p value of 0.000, which is smaller than 0.05. A positive influence can be interpreted as if Financial Literacy increases, Financial Inclusion will increase. Having a significant effect can be interpreted as if Financial Literacy increases, Financial Inclusion will increase with a significant increase. Thus the third hypothesis (H3) which states that Financial Literacy has a significant effect on the Financial Inclusion of MSME actors in Kewapante District, Sikka Regency is accepted.

The results of this research are in accordance with the statement Sari & Kautsar (2020: 1237) which states that financial literacy is the financial skills and overall insight that a person has to be able to manage their finances. A person with a good level of financial literacy can certainly more easily apply information including various facilities, functions, impact of losses, as well as rights and obligations in accessing and utilizing financial products or services. This will encourage someone to recognize and utilize financial products and services, followed by increased financial inclusion. Thus, financial literacy plays an important role in increasing the

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

financial inclusion of MSME players. Through good financial knowledge and understanding, MSMEs can optimize access and use of financial services, improve their financial management, recognize risks and opportunities, as well as increasing their overall business growth.

In this research, Financial Literacy has a significant effect on the Financial Inclusion of MSMEs in Kewapante District, Sikka Regency. According to observations, MSMEs in Kewapante District, Sikka Regency are increasingly optimizing their access and use of financial services. Collaboration between government, financial institutions and non-government organizations in Sikka Regency plays an important role in expanding access to appropriate financial services for MSMEs in Kewapante District. This can help MSME players in Kewapante District get access to capital more easily and with better interest rates.

The results of this research are in line with several empirical evidence from previous research relating to the influence of Financial Literacy on Financial Inclusion, including research conducted by: Purba (2020), Nainggolan (2023) and Dahrani et al (2022). This research is able to prove that Financial Literacy has a significant effect on Financial Inclusion.

MSME actors in Kewapante District, Sikka Regency must be able to increase Financial Inclusion by increasing Financial Literacy. Financial Inclusion Indicators that are priorities for improvement are: 1) Availability/access, 2) Usage, and 3) Quality. To be able to increase Financial Inclusion, there needs to be improvement in Financial Literacy MSME actors in Kewapante District, Sikka Regency especially improvements to several Financial Literacy indicators. Financial Literacy indicators that are a priority to improve are: 1) General knowledge about finance and 2) Investment.

Financial inclusion indicators that are priorities for improvement are as follows:

- a. Availability/Access: This indicator refers to the availability and accessibility of financial products and services for marginalized individuals and groups. The goal is to ensure that everyone has easy and affordable access to basic financial services such as bank accounts, microloans, insurance and other financial products.
- b. Use: This indicator measures the extent to which MSMEs in Kewapante District, Sikka Regency use available financial services. This involves active use of bank accounts, digital payments, money transfers, and participation in savings and investment products.
- c. Quality: Quality indicators refer to the sustainability, efficiency and transparency of the financial services provided. Factors such as security, consumer protection, reliability and regulatory compliance are taken into consideration in improving the quality of financial services.

To increase financial inclusion, it is important to improve the financial literacy of MSME players in Kewapante District, Sikka Regency. Financial literacy refers to an individual's understanding of financial concepts and their ability to make wise financial decisions. Financial literacy indicators that are a priority to improve are as follows:

- a. General knowledge of finance: This includes a basic understanding of financial concepts, such as budget management, bill payments, interest, inflation, and financial risk. MSME actors in Kewapante District, Sikka Regency need to have adequate knowledge of these financial principles to manage their finances well.
- b. Investment: This indicator highlights understanding of various types of investment, such as deposits, shares, bonds and mutual funds. MSME players in Kewapante District, Sikka Regency must understand the risks and potential profits from this investment and understand how to make smart investment decisions that are in line with their financial goals.

By increasing financial literacy on these indicators, MSMEs in Kewapante District, Sikka Regency will be able to manage their finances better, understand the financial options available, and make wiser decisions in managing and investing their money.

### **8) The Influence of Financial Behavior on the Performance of MSMEs in MSMEs in Kewapante District, Sikka Regency**

Based on the results of hypothesis testing, it can be concluded that there is a positive and significant influence of Financial Behavior on MSME Performance, as shown by the p value of 0.000, which is smaller than 0.05. A positive influence can be interpreted as if financial behavior improves, the performance of MSMEs will increase. Having a significant influence can be interpreted as if financial behavior increases, the performance of MSMEs will increase with a significant increase. Thus, the fourth hypothesis (H4) which states that Financial Behavior has a significant effect on the MSME Performance of MSME actors in Kewapante District, Sikka Regency is accepted.

The results of this research are in accordance with the statement Rusnawati & Saharuddin (2022: 258) which states that good financial decisions will result in a good level of profitability which is prepared based on financial management, financial planning and working capital as well as investment decisions. If a person's financial skills are low or bad financial behavior will result in a bad future for a business. Financial behavior is one of the main factors and contributes to the performance of a business. MSMEs that are able to carry out risk analysis, recognize profitable investment opportunities, and manage their investment portfolios

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

carefully tend to achieve better performance. Smart investment decisions can help MSMEs to develop, increase competitiveness and expand market share.

In this research, Financial Behavior has a significant effect on the Performance of MSMEs in Kewapante District, Sikka Regency. According to observations, MSMEs in Kewapante District, Sikka Regency increasingly have good financial management skills, they can manage their funds efficiently, minimize waste, and avoid serious financial problems such as uncontrolled debt. MSME players who demonstrate good financial behavior can build trust with third parties, including customers, suppliers and business partners. This trust can help in establishing profitable partnerships and increase opportunities for collaboration that are useful in improving MSME performance.

The results of this research are in line with several empirical evidence from previous research relating to the influence of Financial Behavior on MSME Performance, including research conducted by: Asmin et al, (2021), Sanistasya et al, (2021), Ummah et al (2021), Rusnawati & Saharuddin (2022). This research is able to prove that financial behavior has a significant effect on MSME performance.

MSME actors in Kewapante District, Sikka Regency must be able to improve MSME performance by improving financial behavior. MSME Performance Indicators that are priorities for improvement are: 1) Customer Perspective, 2) Internal Business Process Perspective, and 3) Learning and Growth Perspective. To be able to improve the performance of MSMEs, there needs to be improvements in financial behavior MSME actors in Kewapante District, Sikka Regency especially improvements to several Financial Behavior indicators. Financial Behavior Indicators that are a priority to improve are: Budget.

Improving financial behavior from the budget aspect can have a positive impact on various perspectives, including the customer perspective, internal business process perspective, and MSME learning and growth perspective. Here is a further explanation of each aspect:

- a. Customer Perspective: By increasing good financial behavior, including effective budget use, MSMEs in Kewapante District, Sikka Regency can provide added value to their customers. A good budget helps MSMEs plan and manage their resources more efficiently, so they can provide better products and services to customers. MSMEs that have a good budget can also offer competitive prices and long-term price stability to their customers. This can increase customer satisfaction and strengthen business relationships with them.
- b. Internal Business Process Perspective: Improving financial behavior from the budget aspect can also bring improvements to the internal business processes of MSMEs. By managing and following the budget well, MSMEs in Kewapante District, Sikka Regency can improve their overall financial management. They can identify unnecessary expenses, control costs and optimize revenue. By doing this, MSMEs can improve operational efficiency, reduce waste and increase their profitability. A well-drafted budget also helps MSMEs make more appropriate decisions in allocating resources and implementing business strategies.
- c. MSME Learning and Growth Perspective: Through good budgeting practices, MSMEs can achieve sustainable growth. By managing their finances effectively, MSMEs in Kewapante District, Sikka Regency can optimize the use of limited resources and increase their profitability. In this process, MSMEs can gain better insight into their financial performance, understand spending and income trends and patterns, and identify opportunities for efficiency and growth. By learning from their budgeting experiences, MSMEs can develop better strategies, improve financial policies, and reduce risks associated with their finances. This in turn can enable MSMEs to grow and develop in the long term.

### **9) The Effect of Financial Inclusion on the Performance of MSMEs in MSMEs in Kewapante District, Sikka Regency**

Based on the results of hypothesis testing, it can be concluded that there is a positive and significant influence of Financial Inclusion on MSME Performance, as shown by the p value of 0.000, which is smaller than 0.05. A positive influence can be interpreted as if financial inclusion increases, the performance of MSMEs will increase. Having a significant impact can be interpreted as if financial inclusion increases, the performance of MSMEs will increase with a significant increase. Thus, the fourth hypothesis (H4) which states that financial inclusion has a significant effect on the performance of MSME actors in Kewapante District, Sikka Regency, is accepted.

The results of this research are in accordance with the statement Rohmah et al, (2022:63) which states that accelerating economic development is a basic requirement for improving the quality of MSMEs. An important element to support this acceleration is maximizing the contribution of the financial sector by opening access to financial services for business actors. This means that there must be efforts to accelerate the financial sector in the community economy by increasing financial inclusion. Overall, financial inclusion provides opportunities for MSMEs to access necessary financing, reduce dependence on informal

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

financing, increase operational efficiency, and increase financial knowledge. All of this can contribute to improving the performance of MSMEs, enabling them to grow, create jobs and contribute to overall economic growth.

In this research, Financial Inclusion has a significant effect on the performance of MSMEs in Kewapante District, Sikka Regency. According to observations, financial inclusion can provide MSME actors in Kewapante District, Sikka Regency, with access to banking services, including savings accounts and various financial tools. This helps MSMEs in managing their finances better, tracking revenue and avoiding waste. Financial inclusion is considered important because it can have a positive impact on the performance of Micro, Small and Medium Enterprises (MSMEs) in Kewapante District.

The results of this research are in line with several empirical evidence from previous research relating to the influence of Financial Inclusion on MSME Performance, including research conducted by: Sanistasya et al (2019), Geriadi et al (2021), Kusuma et al (2022), Joko (2022). This research is able to prove that financial inclusion has a significant effect on MSME performance.

MSME actors in Kewapante District, Sikka Regency must be able to improve the performance of MSMEs by increasing financial inclusion. MSME Performance Indicators that are priorities for improvement are: 1) Customer Perspective, 2) Internal Business Process Perspective, and 3) Learning and Growth Perspective. To be able to improve the performance of MSMEs, there needs to be improvements in financial inclusion MSME actors in Kewapante District, Sikka Regency especially improvements to several Financial Inclusion indicators. Financial Inclusion Indicators that are priorities for improvement are: 1) Availability/access, 2) Usage, and 3) Quality.

Financial inclusion is a concept where individuals and groups who previously did not have access to financial services, such as banking and insurance, are given the opportunity to access them. Financial inclusion has a significant influence on improving the performance of Small and Medium Enterprises (SMEs) in Kewapante District, Sikka Regency from various perspectives. The influence of the three aspects is as follows:

### **a. Availability/Access:**

- (1) Customer Perspective: Financial inclusion that expands access to financial services can provide benefits for SME customers in Kewapante District, Sikka Regency. With easier access to loans, insurance and other financial services, SMEs can obtain capital to grow their businesses, protect their assets from risk and increase their financial stability. This can help SMEs improve their overall performance.
- (2) Internal Business Process Perspective: Availability of access to financial services can also help SMEs in Kewapante District, Sikka Regency in optimizing their internal business processes. With better access to banking products and payment services, SMEs can conduct transactions more efficiently, manage their finances better and speed up cash flow. This can contribute to increasing the productivity and efficiency of their business.
- (3) Learning and Growth Perspective: Through financial inclusion, SMEs in Kewapante District, Sikka Regency can gain new knowledge and skills in managing their finances. They can learn about financial planning, risk management, and other financial management strategies. By increasing their understanding of financial concepts, SMEs can develop their skills and grow as more sustainable businesses.

### **b. Use:**

- (1) Customer Perspective: Good financial inclusion will encourage the use of financial services by SMEs in Kewapante District, Sikka Regency. By using the right financial services, such as savings, investments and insurance, SMEs can better manage their income, increase access to capital and protect themselves from financial risks. This can help SMEs in planning and managing their finances better.
- (2) Internal Business Process Perspective: Appropriate use of financial services can improve SMEs' internal business processes. For example, by using electronic banking and digital payment services, SMEs can speed up transactions, reduce administrative costs and improve inventory management. Effective use of financial services can provide competitive advantages for SMEs in Kewapante District, Sikka Regency.
- (3) Learning and Growth Perspective: By using available financial services, SMEs in Kewapante District, Sikka Regency can increase their understanding of how to use the right financial tools to achieve their goals. By developing good financial management habits and utilizing the tools and services provided by financial institutions, SMEs can grow and develop sustainably.

### **c. Quality:**

- (1) Customer Perspective: Good financial inclusion will influence the quality of service received by SMEs in Kewapante District, Sikka Regency. With competition in the financial sector, financial institutions will strive to improve the quality of their services to attract SME customers. This can mean improved product quality, ease of use, and increased customer confidence in the financial institutions they use.

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

- (2) Internal Business Process Perspective: Good quality financial services can influence the internal business processes of SMEs in Kewapante District, Sikka Regency. For example, sophisticated and efficient banking services can speed up the process of borrowing and disbursing funds for SMEs. This can reduce bureaucracy and increase the speed of SMEs' reactions to business opportunities.
- (3) Learning and Growth Perspective: High quality financial services can also contribute to the learning and growth of SMEs. By having access to accurate financial knowledge, SMEs in Kewapante District, Sikka Regency can learn from best practices and innovations in the financial sector. This can help them develop new strategies, improve business processes, and improve their overall performance.

Overall, financial inclusion has a significant impact on improving SME performance from the perspective of customers, internal business processes, and learning and growth. With the availability of access, appropriate use, and good quality of financial services, SMEs in Kewapante District, Sikka Regency can increase their financial stability, optimize business processes, and grow as sustainable businesses.

### **10) Financial Behavior Mediates the Effect of Financial Literacy on the Performance of MSMEs in MSMEs in Kewapante District, Sikka Regency**

Based on the results of hypothesis testing, it can be concluded that there is a positive and significant influence of Financial Literacy on MSME Performance through Financial Behavior, as shown by the p value of 0.000, which is smaller than 0.05. Thus, the sixth hypothesis (H6) states that Financial Behavior is able to mediate the relationship between Financial Literacy and MSME Performance MSME actors in Kewapante District, Sikka Regency accepted. Furthermore, because the path coefficient shows that the direct effect is not significant while the indirect effect is significant, so the mediation effect is full mediation. This means that the Financial Literacy variable will be more effective in indirectly influencing the MSME Performance variable through the Financial Behavior variable.

The results of this research are in accordance with the statement Ermawati et al(2019: 69) which states that if a person has good financial literacy coupled with appropriate behavior in managing finances then in managing his finances, that person will avoid financial problems so that business performance will be achieved to the maximum.

In this research, the financial behavior of MSME actors in Kewapante District can act as a link between financial literacy and MSME performance by turning knowledge into concrete actions that support business growth and success. Therefore, high financial literacy can indirectly influence the performance of MSMEs in Kewapante District through changes in behavior and better business practices. Financial literacy also enables MSME players in Kewapante District to better identify, measure and manage financial risks. They are able to create strategies to deal with risks such as fluctuations in raw material prices, market changes, or regulatory changes that can affect their business performance.

The results of this research are in line with several empirical evidence from previous research relating to the influence of Financial Literacy on MSME Performance, including research conducted by: Ermawati et al, (2019). This research is able to prove that financial management behavior is able to mediate the relationship between financial literacy and business performance.

MSME actors in Kewapante District, Sikka Regency must be able to improve MSME performance by increasing Financial Literacy through Financial Behavior. Because the Financial Behavior variable has a full mediation effect, improving MSME performance can be done indirectly, namely by improving Financial Literacy, especially improving the indicators: 1) General knowledge about finance and 2) Investment. By improving the Financial Literacy variable, the Financial Behavior variable can be improved (there is an increase in the indicator: Budget). When there is an increase in the Financial Behavior variable, it will have an impact on increasing the MSME Performance variable (there is an increase in the indicators: customer perspective, internal business process perspective, and learning and growth perspective).

Improving financial literacy can have a significant indirect impact on improving MSME performance through Behavioral Finance. The following is an explanation of this relationship:

- a. Improving General Knowledge about Finance: By increasing general knowledge about finance, MSME players in Kewapante District, Sikka Regency will better understand basic financial concepts and principles, including cash flow management, bookkeeping, financial analysis, and understanding of available financial resources. This will help them make better decisions regarding the financial management of their business.
- b. Improving Knowledge about Investment: Improving knowledge about investment will help MSMEs in Kewapante District, Sikka Regency understand the various investment options available to them. They will become more aware of the benefits and risks associated with various investment instruments, such as shares, bonds or property. This knowledge will help them make better



## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

investment decisions, such as appropriate fund allocation and portfolio diversification, which can support the growth and financial stability of MSMEs.

- c. **Improving Financial Behavior (Budgeting):** By improving financial literacy, MSME actors in Kewapante District, Sikka Regency will have the knowledge and skills needed to develop and implement effective budgets. They will be able to better manage income and expenses, identify and reduce waste, and allocate funds more efficiently. This will help MSMEs achieve long-term financial stability, reduce the risk of bankruptcy, and strengthen their position in market competition.
- d. **Improving MSME Performance:** Improving financial behavior through improving financial literacy will have a direct impact on improving the performance of MSMEs in Kewapante District, Sikka Regency in several aspects:
  - (1) **Customer Perspective:** With better financial management, MSMEs can offer products or services that are higher quality and relevant to customer needs. This can increase customer satisfaction, expand the customer base, and strengthen long-term business relationships.
  - (2) **Internal Business Process Perspective:** With efficient financial management, MSMEs can optimize their business processes, reduce operational costs, increase productivity, and speed up response time to customers. This can result in higher efficiency and increases in the scale of production or service.
  - (3) **Learning and Growth Perspective:** Through improving financial literacy, MSME actors in Kewapante District, Sikka Regency will continue to improve their knowledge and skills in financial management. They will be better prepared to face business challenges and opportunities, develop growth strategies, and implement new innovations. In this way, MSMEs in Kewapante District, Sikka Regency will be able to grow and develop sustainably.

### **11) Financial Inclusion Mediates the Effect of Financial Literacy on the Performance of MSMEs in MSMEs in Kewapante District, Sikka Regency**

Based on the results of hypothesis testing, it can be concluded that there is a positive and significant influence of Financial Literacy on MSME Performance through Financial Inclusion, as shown by the p value of 0.000, which is smaller than 0.05. Thus, the seventh hypothesis (H7) states that financial inclusion is able to mediate the relationship between financial literacy and MSME performance. MSME actors in Kewapante District, Sikka Regency accepted. Furthermore, because the path coefficient shows that the direct effect is not significant while the indirect effect is significant, so the mediation effect is full mediation. This means that the Financial Literacy variable will have a more effective indirect influence on the MSME Performance variable through the Financial Inclusion variable.

The results of this research are in accordance with the statement Dahrani et al (2022: 1510) which states that financial inclusion is a process that facilitates access, availability and benefits of the formal financial system for all economic actors. So for this reason, the existence of financial literacy and inclusion needs to be a serious concern for MSME players so that the business activities they carry out have a positive impact on their business development in both the short and long term..

In this research, financial literacy is still an important factor in improving the performance of MSME actors in Kewapante District, Sikka Regency. Although financial inclusion can facilitate access to various financial services, MSMEs also have sufficient knowledge and understanding of how to use these services effectively to optimize their performance. Therefore, financial inclusion and financial literacy should be strengthened simultaneously to achieve the best results in supporting MSMEs in Kewapante District. MSMEs in Kewapante District often face daily financial challenges, such as poor cash flow management. Financial inclusion can help them overcome these problems by providing services that enable them to store, manage and access funds more efficiently. MSMEs that have better access to this source of funds can invest more capital in their business, increasing their ability to grow and develop resulting in increased MSME performance in Kewapante District.

The results of this research are in line with several empirical evidence from previous research relating to the influence of Financial Literacy on MSME Performance, including research conducted by: Dahrani et al (2022) and Masithah et al, (2023). This research is able to prove that financial management behavior is able to mediate the relationship between financial literacy and financial performance.

MSME actors in Kewapante District, Sikka Regency must be able to improve the performance of MSMEs by increasing Financial Literacy through Financial Inclusion. Because the Financial Inclusion variable has a full mediation effect, improving MSME performance can be done indirectly, namely by improving Financial Literacy, especially improving the indicators: 1) General knowledge about finance and 2) Investment. By improving the financial literacy variable, the Financial Inclusion variable can be increased (there is an increase in the indicators: availability/access, use, and quality). When there is an increase in the financial inclusion variable, it will have an impact on increasing the MSME Performance variable (there is an increase in the indicators: customer perspective, internal business process perspective, and learning and growth perspective).

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

Improving financial literacy can indirectly improve the performance of MSMEs through the financial inclusion variable. Improving financial literacy can be done through:

- a. Improved general knowledge of finance: By improving general knowledge of finance, MSMEs will have a better understanding of basic financial principles, including cash flow management, financial planning and risk management. With this better understanding, MSMEs can make wiser decisions about managing their finances. They can manage debt, maximize the use of available financial resources, and improve their operational efficiency.
- b. Improved knowledge about investment: By increasing knowledge about investment, MSMEs can learn ways to allocate and invest their funds effectively. They can understand the types of investments available, the risks involved, and the potential returns on investments. This way, they can make smarter investment decisions and take advantage of existing growth opportunities.
- c. Improved financial inclusion variables: Financial inclusion includes three main indicators: availability/access, use, and quality. When there is an increase in variables financial literacy will have an impact on financial inclusion variables, namely availability/access, use and quality of financial services.
  - (1) Availability/access: By improving financial literacy, MSMEs will be better able to utilize the various financial products and services available. They can access bank accounts, loans, investment products and other financial services that can help in the development of their business.
  - (2) Usage: With increased financial literacy, MSMEs will be more inclined to use various financial products and services that are relevant to their needs. They will understand the benefits and risks associated with the use of certain financial products, and can optimize their use.
  - (3) Quality: With increased financial literacy, MSMEs will be able to access and utilize quality financial products and services offered by financial institutions. They can evaluate the reliability and reputation of financial institutions, as well as understand the policies and conditions associated with those products and services.
- d. When it happens enhancement in the financial inclusion variable, namely availability/access, use and quality of financial services, will have an impact on MSME performance:
  - (1) Customer perspective: With easier access and more effective use of financial services, MSMEs can provide better services to their customers. They can develop more flexible payment systems, provide electronic payment methods, or offer easier credit to increase customer satisfaction.
  - (2) Internal business process perspective: Improved financial inclusion also enables MSMEs to optimize their internal business processes. They can use electronic banking services to facilitate financial transactions, manage inventory more efficiently, or obtain business capital through better access to financing sources.
  - (3) Learning and growth perspective: With increased financial inclusion, MSMEs can access relevant financial information, such as financial reports, market analysis or financial training. This helps MSMEs in gaining better insight into their business performance, make better decisions, and improve their ability to grow and develop.

Overall, improving financial literacy can have a positive impact on financial inclusion, which in turn improves MSME performance in various aspects of business. With better financial understanding, MSMEs can manage their finances more effectively, make smarter investment decisions, and take advantage of available financial services to increase the growth and sustainability of their businesses

## **V. CONCLUSIONS AND SUGGESTIONS**

### **A. CONCLUSION**

Based on the results of the analysis that has been discussed, the conclusions from the results of this research are as follows:

- 1) The results of testing the first hypothesis show that the financial literacy variable has a positive and insignificant effect on the performance of MSMEs in Kewapante District, Sikka Regency. These results show that financial literacy has not been able to change and improve the performance of MSMEs significantly.
- 2) The results of testing the second hypothesis show that the financial literacy variable has a positive and significant influence on the financial behavior of MSME actors in Kewapante District, Sikka Regency. These results show that financial literacy has an important role in changing and improving the financial behavior of MSME actors in Kewapante District, Sikka Regency. The higher MSME actors improve their financial literacy skills, the better the financial behavior of these MSME actors.
- 3) The results of testing the third hypothesis show that the financial literacy variable has a positive and significant influence on the financial inclusion of MSMEs in Kewapante District, Sikka Regency. These results show that financial literacy has an

## **The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)**

important role in increasing the financial inclusion of MSMEs in Kewapante District, Sikka Regency. The higher MSME actors improve their financial literacy skills, the better the financial inclusion of these MSME actors.

- 4) The results of testing the fourth hypothesis show that financial behavior variables have a positive and significant influence on the performance of MSMEs in Kewapante District, Sikka Regency. These results show that financial behavior has an important role in improving the performance of MSMEs in Kewapante District, Sikka Regency. The better MSME players improve their financial behavior, the higher the MSME performance will be.
- 5) The results of testing the fifth hypothesis show that the financial inclusion variable has a positive and significant influence on the performance of MSMEs in Kewapante District, Sikka Regency. These results show that financial inclusion has an important role in improving the performance of MSMEs in Kewapante District, Sikka Regency. The better MSME players improve financial inclusion, the higher the performance of these MSMEs.
- 6) The results of testing the sixth hypothesis show that there is a positive and significant relationship between the financial literacy variable and the MSME performance variable through financial behavior. These results indicate that financial behavior variables have a significant role as mediating variables in the relationship between financial literacy variables and MSME performance variables in Kewapante District, Sikka Regency.
- 7) The results of testing the seventh hypothesis show that there is a positive and significant relationship between the financial literacy variable and the MSME performance variable through financial inclusion. These results indicate that the financial inclusion variable has a significant role as a mediating variable in the relationship between financial literacy variables and MSME performance variables in Kewapante District, Sikka Regency.

### **B. RESEARCH LIMITATIONS**

This research has been attempted and carried out in accordance with scientific procedures, however it still has limitations, namely:

- 1) In the data collection process, the information provided by respondents through questionnaires sometimes does not show actual income, this happens because sometimes there are differences in thoughts, assumptions and understanding for each respondent, as well as other factors such as the honesty factor in filling in the respondent's income in the questionnaire.
- 2) The research objects chosen in this study were only MSMEs in Kewapante District, Sikka Regency as samples, while other objects were not selected due to limited time in the research to suit the academic calendar.

### **C. SUGGESTION**

Based on the conclusions of this research, several things can be suggested as follows:

- 1) Improving the performance of MSMEs by paying attention to financial literacy. MSMEs in Kewapante District, Sikka Regency should emphasize understanding the importance of financial literacy in the business environment in order to improve the performance of MSMEs from the aspect of customer perspective, internal business process perspective and learning and growth perspective. Efforts that can be made by MSME players to increase financial literacy, especially aspects of general knowledge, namely with better understand basic financial concepts and principles, including cash flow management, bookkeeping, financial analysis, and understanding of available financial resources. Another effort that can be made is to encourage MSME players to understand the various investment options available to them.
- 2) Improving financial behavior by paying attention to financial literacy. MSME actors in Kewapante District, Sikka Regency should emphasize understanding the importance of financial literacy in the business environment in order to improve financial behavior from the aspect of budget (budget). Efforts that can be made by MSME players to increase financial literacy, especially aspects of general knowledge about namely with better understand basic financial concepts, such as managing income and expenses, financial planning, budgeting, and debt management. Another effort that can be made is to encourage MSME players to understand the various investment instruments available, the risks and potential profits associated with each instrument, and how to develop a balanced investment portfolio.
- 3) Increasing financial inclusion by paying attention to financial literacy. MSME actors in Kewapante District, Sikka Regency should emphasize understanding the importance of financial literacy in the business environment in order to increase financial inclusion from the aspect of availability/access, usage aspects, and quality aspects. Efforts that can be made by MSME players to increase financial inclusion are by improve general knowledge about finance and improve understanding of various types of investments.
- 4) Improving MSME performance by paying attention to financial behavior. MSME actors in Kewapante District, Sikka Regency should emphasize understanding the importance of financial behavior in the business environment in order to improve MSME performance from the aspect of customer perspective, internal business process perspective, and learning and growth

## The Influence of Financial Literacy on MSME Performance is Mediated by Financial Behavior and Financial Inclusion (Study in Kewapante District-Sikka Regency)

perspective. Efforts that can be made by MSME players to improve MSME performance are by improving financial behavior from the budget aspect. MSME players should plan and manage budgets more efficiently so they can offer competitive prices for customer satisfaction. Make more appropriate decisions in allocating budgets to support business strategies. Next, better understand trends and patterns of expenditure and income, as well as identify opportunities for budget efficiency so that MSMEs can grow and develop in the long term.

- 5) Improving the performance of MSMEs by paying attention to financial inclusion. MSME actors in Kewapante District, Sikka Regency should emphasize understanding the importance of financial inclusion in the business environment in order to improve MSME performance from the aspect of customer perspective, internal business process perspective, and aspects perspective learning and growth. Efforts that can be made by MSME players to improve MSME performance are by improving financial inclusion in terms of aspects availability/access, usage aspects and quality aspects. The Regional Government of Sikka Regency should guarantee the availability of access, appropriate use and good quality of financial services, so that SMEs in Kewapante District, Sikka Regency can increase their financial stability, be able to optimize business processes, and grow as sustainable businesses.
- 6) Improving MSME Performance by increasing financial literacy through financial behavior. MSME actors in Kewapante District, Sikka Regency should increase financial literacy by increasing general knowledge of finance and knowledge of investment so that the financial behavior of MSME players improves. This increase is marked by increased budget management effectively and efficiently. In the end, increasing financial literacy indirectly through financial behavior will improve the performance of MSMEs in terms of aspects customer perspective, internal business process perspective and learning and growth perspective.
- 7) Improving the performance of MSMEs by increasing financial literacy through financial inclusion. MSME actors in Kewapante District, Sikka Regency should increase financial literacy by increasing general knowledge of finance and knowledge of investment so that the financial inclusion of MSME players increases. This increase is characterized by increasing availability/access to finance, use of finance, and quality of financial services. In the end, increasing financial literacy indirectly through financial inclusion will improve the performance of MSMEs in terms of aspects customer perspective, internal business process perspective and learning and growth perspective.

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