



The Influence of Financial Inclusion and Financial Technology on MSME Performance in Garut Regency

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Abstract

The purpose of this study is to understand and analyze the impact of financial inclusion and FinTech on the performance of MSMEs in Garut Regency. This research uses a quantitative approach. The population consists of MSME actors in Garut Regency. The sample size used in the study is 100 respondents. Data collection techniques include questionnaires and interviews. Data analysis combines descriptive statistical analysis with multiple linear regression. Data was processed using IBM SPSS Statistics version 26. The study's findings indicate that financial inclusion has a positive and significant impact on the work performance of MSME employees. FinTech also has a positive and significant effect on MSME employee performance.

Keywords: Financial Inclusion, FinTech, MSME Performance

1 Introduction

The rapid development of technology is no longer a surprising phenomenon, particularly with the rise of Indonesia's growing middle class. Globalization has significantly accelerated the nation's population growth, introducing new challenges, particularly in economic and national security sectors. A crucial factor influencing the success of micro, small, and medium enterprises (MSMEs) is their engagement with the financial system. Financial inclusion, a term that denotes a national strategy aimed at fostering economic growth by promoting emission reductions, enhancing income distribution, and ensuring financial stability, focuses on eliminating barriers to accessing financial services.

Despite its importance, MSMEs in Indonesia continue to face significant obstacles, such as high levels of financial exclusion, low loan approval rates, and limited resources, all of which make accessing formal financial institutions challenging. These difficulties underline the urgent need for improved financial inclusion. As observed by Muhadjir et al. (2015), many small business owners are forced to rely on personal savings, family support, or informal lenders due to limited access to conventional banking services and the burden of high-interest rates.

The advent of financial technology (FinTech) has created new opportunities for enhancing MSME performance by making financial services more accessible and simplifying transaction processes. With the help of FinTech platforms and infrastructure, financial empowerment services are increasingly available. Today, it is even possible for MSMEs to be officially registered within hours. As defined by the World Economic Forum (2019), FinTech refers to the innovative application of technology in the financial sector, offering services such as digital payments, savings, loans, and investment tools.

Garut Regency is one of the regions experiencing rapid economic growth driven by MSMEs. However, according to the local Department of Cooperatives and MSMEs, many of these businesses face foundational challenges, including limited capacity, insufficient marketing strategies, a shortage of skilled workers, funding difficulties, and weak management practices.

Another ongoing issue is the uneven distribution of business orders, leading to a sharp decline in production data from some companies. To address this, a more coordinated and strategic approach is necessary to enhance MSME productivity. While the growth of MSMEs in Garut is vital for strengthening the regional economy, Sudarti et al. (2017) noted that many entrepreneurs in the area still encounter significant financial obstacles when starting their businesses.

Irmawati (2019) highlighted that limited access to capital and challenges in marketing are among the main issues faced by MSMEs. Promoting financial inclusion has been identified as a promising solution to these challenges. Similarly, Iriana (2021) emphasized that FinTech services can improve business performance by assisting entrepreneurs in streamlining their financial operations. Therefore, this study focuses on the theme: "The Impact of Financial Inclusion and FinTech on the Performance of MSMEs in Garut Regency."

2 Literature Review

Financial Inclusion

Yanti (2019) conceptualizes financial inclusion as an integrated framework aimed at addressing challenges related to the utilization of financial services offered by formal financial institutions. According to the Financial Services Authority (2016:3), inclusive banking refers to the availability and accessibility of a broad range of financial institutions, products, and services that are tailored to the needs and financial capacities of the population, particularly those from the middle- to lower-income segments, with the overarching goal of improving societal welfare. This study adopts four key components in assessing financial inclusion: access, usage, quality, and its contribution to overall welfare (Yanti, 2019).

Financial Technology

Hutabarat (2018) defines financial technology, or FinTech, as the convergence of financial services and digital innovation. The International Organization of Securities Commissions (IOSCO, 2017) further characterizes FinTech as encompassing emerging business models and advanced technologies that have the capacity to transform or significantly disrupt traditional financial services. In his study, Hutabarat (2018) outlines four key dimensions for evaluating FinTech: Knowledge, Ease of Use, Effectiveness, and User Interest.

MSME Performance

The performance of Micro, Small, and Medium Enterprises (MSMEs) reflects the overall results of various business activities conducted within a specific timeframe to fulfill organizational objectives (Harahap, 2018). Aribawa (2016:2) emphasizes that the value or standard of MSMEs is closely linked to the performance of individuals within the organization, which can be evaluated based on the extent to which goals are achieved and tasks are effectively carried out. This study assesses MSME performance through three primary dimensions: Strategic, Administrative, and Operational.

3 Research Methodology

This study adopts a mixed methodological approach, incorporating both descriptive and quantitative analyses. To examine the relationships among variables, multiple linear regression analysis was employed as the primary analytical technique. Data processing was conducted using SPSS for Windows version 26. The research sample consisted of micro-enterprise owners operating within Garut Regency. A non-probability sampling method, specifically random sampling, was applied, with the sample size determined using the Slovin formula. Data were collected through a combination of structured interviews and questionnaire distribution.

4 Research Findings and Discussion

The aim of this research is to analyze the correlation between FinTech, Financial Inclusion, and MSME Performance.

Data Analysis

Validity and Reliability

- *Validity*: Based on Sugiyono (2018), an instrument is valid if it accurately measures what it is intended to. An item is valid if r (calculated) $> r$ (table = 1.966). The validity test results for all variables exceed the table value, confirming the instrument's validity.
- *Reliability*: Reliability measures consistency across different test groups. Cronbach's Alpha was used, with a 0.05 significance level.

No.	Variable	Cronbach's Alpha	Alpha	Status
1	Financial Inclusion (X1)	0.892	0.05	Reliable
2	Financial Technology (X2)	0.921	0.05	Reliable
3	MSME Performance (Y)	0.897	0.05	Reliable

Multiple Linear Regression

To determine the effect of financial inclusion (X1) and FinTech (X2) on MSME performance (Y), the following regression equation was derived:

$$Y = 1.528 + 0.204X_1 + 0.572X_2$$

This indicates that for every 1% increase in financial inclusion, MSME performance increases by 0.204%, and for every 1% increase in FinTech, MSME performance increases by 0.572%.

Hypothesis

1. T-Test

To determine whether the statements made in the hypotheses are true, a t-test is used. According to the table, the t-test uses a significance threshold of 0.05 to indicate how much the independent variables differ from the dependent variable. According to the t-test results using the SPSS for Windows version 26 program, the following criteria apply: if the significance value (sig.) is > 0.05 , then H_0 is accepted and H_a is rejected; if sig. < 0.05 , then H_0 is rejected and H_a is accepted.

a. Financial Inclusion Variable

As shown in Table 3 above, the t-count value for the financial inclusion variable is 2.371, where $t\text{-count} > t\text{-table}$ ($2.371 > 1.985$), with a significance level between 0.02–0.05. Thus, it can be concluded that there is a significant difference between financial awareness and the work performance of MSME employees. Therefore, H_0 is rejected and H_a is accepted.

b. FinTech Variable

As shown in Table 3 above, the t-count value for the financial technology variable is 6.896, where $t\text{-count} > t\text{-table}$ ($6.896 > 1.985$), and the significance level is $0.00 < 0.05$. It can be concluded that there is a significant difference between financial awareness and the work habits of MSME employees. Hence, H_0 is rejected and H_a is accepted.

T-Test (Hypothesis Testing)

- *Financial Inclusion (X1)*: $t\text{-value} = 2.371 > t\text{-table} = 1.985$, $\text{sig} = 0.02 < 0.05 \rightarrow H_0$ rejected, H_a accepted.
- *FinTech (X2)*: $t\text{-value} = 6.896 > t\text{-table} = 1.985$, $\text{sig} = 0.00 < 0.05 \rightarrow H_0$ rejected, H_a accepted.

Discussion

The Effect of Financial Inclusion on MSME Performance

Based on the results of the analysis, it can be concluded that the first hypothesis (H_1) is supported. The financial inclusion variable demonstrates a significant and positive influence on the performance of Micro, Small, and Medium Enterprises (MSMEs). This indicates that when business owners possess a strong understanding of financial concepts, their productivity tends to improve. Enhanced access to and transparency of financial information contributes to better organizational performance. In contrast, limited access or withholding of financial data can impede progress and hinder overall business development.

Access to financial information is therefore a key driver of improved performance and long-term business sustainability. However, this access is largely shaped by the mindset of individual entrepreneurs. Financial inclusion aims to provide open and equitable access to financial services and information. Yet, if an entrepreneur perceives financial inclusion as irrelevant or unhelpful to their business, they may be less inclined to utilize available resources. Thus, personal attitudes and perceptions play a crucial role in shaping one's motivation to take actions that support business objectives.

Yanti (2019) found that perceptions of financial literacy significantly influence employee performance within MSMEs. When financial inclusion is understood and applied genuinely, it can result in behavioral changes that drive improvements in productivity. Moreover, embracing the concept of inclusion can transform the way business actors view financial resources, shifting focus toward more adaptive and strategic behavior. Engaging with both formal banking services and non-bank financial institutions can strengthen the ability of MSMEs to compete in the global economy. To reduce economic inequality and enhance the welfare of MSME stakeholders, efforts to improve business performance through the expansion of financial access must continue, particularly given the increasing availability of financial services nationwide.

The Influence of FinTech on MSME Performance

The analysis results indicate that the FinTech variable has a significant and positive impact on the performance of Micro, Small, and Medium Enterprises (MSMEs), thus supporting the acceptance of the second hypothesis (H_2). FinTech plays a crucial role in enhancing the performance of MSMEs, with the increased dissemination of financial technology knowledge leading to improvements in business outcomes. On the other hand, limited access to or dissemination of FinTech-related information can hinder performance enhancements.

FinTech represents an innovative integration of finance and technology, but only a small proportion of business owners possess the necessary expertise to fully engage with these advancements. A lack of awareness and understanding of technological developments prevents many MSMEs from keeping pace with industry trends. From the banking sector's perspective, FinTech is seen as a valuable innovation

that enables financial institutions to offer more accessible products, simplifying access for business actors.

The findings of this study align with Iriana's (2021) research, which demonstrated that the adoption of FinTech among MSME owners has positively influenced business performance, particularly through the use of modular payment systems and digital financial management tools. This study indirectly confirms that FinTech has the potential to significantly improve MSME performance.

5 Conclusion

Conclusion

Based on the research analysis and the discussion of the results, the following conclusions can be drawn:

1. The findings support the hypothesis that financial inclusion significantly impacts the workforce participation of MSMEs. This indicates that the productivity of MSMEs will improve notably as employees enhance their awareness and understanding of financial matters.
2. The results also confirm the hypothesis that FinTech has a significant negative effect on the work life of MSME employees. This suggests that continued development and effective utilization of FinTech tools by MSME employees will lead to a substantial increase in their productivity.

Suggestions

1. For Research Subjects

It is essential for employees in MSMEs to acknowledge the influence that FinTech and the concept of financial inclusion have on their work. Employers can gain significant benefits by focusing on the key factors that facilitate the clear and efficient implementation of financial technology and financial inclusion. This approach has the potential to positively enhance the work life of MSME employees.

2. For Future Researchers

Building on the findings of this study, there are several areas that warrant further investigation in future research. While this study has offered valuable insights into micro, small, and medium enterprises (MSMEs), several aspects, especially those related to financial inclusion and FinTech, remain underexplored and merit more in-depth examination.

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