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THE INFLUENCE OF DIGITAL PAYMENTS AND FINANCIAL LITERACY ON MSME PERFORMANCE WITH FINANCIAL INCLUSION AS MEDIATION VARIABLES

Putri Putu Bunga Maharani Wibawa*, Baskara I Gde Kajeng
Faculty of Economics and Business, Udayana University, Indonesia
*E-mail: bungamaharani14@gmail.com

ABSTRACT

People in today's digital era are required to be able to utilize technology in the business world, including MSME players with the target of improving more optimal performance. The success of an MSME in the business world is determined based on the performance produced, so it is important to determine the factors that can affect the performance of MSMEs. This study aims to determine the effect of digital payments and financial literacy on MSME performance mediated by financial inclusion. The population in this study is all MSMEs in Denpasar City during 2021, amounting to 32,026 MSMEs. The sample was determined by the purposive sampling method and calculated based on the Slovin formula so that a sample of 100 MSMEs was obtained. The data analysis technique used in this study is SemPLS. The results showed that digital payments and financial literacy have a positive and significant effect on financial inclusion. The more innovation and development in digital payments and the better financial knowledge of business actors tend to bring significant changes to financial inclusion. Digital payments, financial literacy, and financial inclusion have a positive and significant effect on the performance of MSMEs. Through digital payments and financial knowledge that is owned can provide convenience for users, it will then have an impact on improving the performance of MSMEs. In addition, financial inclusion mediates the influence of digital payments and financial literacy on the performance of MSMEs in Denpasar City. The existence of financial inclusion makes it easier for business actors to get financial access that can support the use of digital payments and financial literacy owned by MSME actors in creating optimal business performance.

KEY WORDS

Digital payment, financial literacy, financial inclusion, MSME performance.

Micro, Small and Medium Enterprises or MSMEs are business sectors that have an important role in the national economy. MSMEs are the pillars of a country's economy in the face of an economic crisis. Crisis conditions occurred from 1997 to 1998, only the MSME sector was able to remain firmly established (Abidin, 2015). After the economic crisis that occurred, the number of MSMEs did not decrease but instead increased where the existence of these MSMEs was able to absorb 65 million to 114 million workers (Purba, 2020). This phenomenon explains that MSMEs are productive businesses to be developed to support macro and micro economic development in Indonesia and influence other sectors.

The development of MSMEs is currently very rapid in various regions in Indonesia and is one of the sectors that is the main target for the government in advancing the community's economy (Artharini & Noviyanti, 2020). The important role of MSMEs in improving the community's economy requires MSME actors to be able to create optimal performance. Performance is defined as the achievement of the work results of a business in a certain period, where the more optimal business performance achieved reflects the optimal financial condition of a company (Purba, 2020). The performance of MSMEs reflects the achievements of the work of MSME actors both in quantity and quality in accordance with the vision, mission, and goals to be achieved. Good performance in all sectors, both finance, production, distribution, and marketing is an absolute requirement for MSMEs to be able to achieve business survival (Idawati & Pratama, 2020). MSMEs with optimal performance are expected to support the improvement of the national economy, so it is important to conduct an in-depth study of MSME performance.

MSMEs in Indonesia are experiencing very rapid development, where this development occurs in all regions in Indonesia, including in Bali Province. The center of the movement of the economic sector in Bali Province is played by MSMEs as an effort to move the wheels of the community's economy. Based on data obtained from the Cooperatives and MSMEs Office of Bali Province in 2022 quoted on the official website of the Bali Provincial Cooperative and MSME Office, namely www.koperasi.denpasarkota.go.id, there was an increase in the number of MSMEs by 6.4% or as many as 28,344 MSME units so that the number of MSMEs in Bali Province in 2022 reached 440,609 units.

The increase in the number of MSMEs in Bali Province is expected to support the community's economy. Denpasar City as the capital of Bali Province certainly has its own magnet for every circle of society where as the center of the movement of the economic sector in Bali Province, the existence of MSMEs is important in an effort to move the wheels of the economy of the people in Denpasar City. Based on Table 1.2, it can be seen that the development of the number of MSMEs in Denpasar City during 2020-2022 fluctuates. In 2020, the number of MSMEs in Denpasar reached 32,223 units, where this number decreased in 2021 where the number of MSMEs in 2021 was 29,549 units. In 2022, the number of MSMEs in Denpasar City has increased where the number of MSMEs in Denpasar City has reached 32,476 units. Fluctuations in the number of MSMEs in Denpasar City indicate that there are some MSMEs that cannot maintain the sustainability of their business. The performance of MSMEs that are not optimal causes MSME actors to be unable to maintain business survival and cannot win the increasingly rapid business competition.

Some of the obstacles faced by MSME actors in running a business and developing a business, one of which is inadequate human resources (HR), difficulty in obtaining capital, problems with raw materials, production, and market competition, marketing costs, and the increasing use of imported goods (Kusumadewi, 2017). The performance achievements of MSMEs in Denpasar City are related to the target and the realization of the entrepreneurship ratio which is a benchmark for the development of MSMEs in Denpasar City. The performance target can be seen from the increase in entrepreneurship from strong and independent MSME players with the indicator used is an increase in the ratio of entrepreneurship in the MSME sector. The entrepreneurship ratio target in 2022 is 9.56 percent with realization in 2022 of 9.99 percent and performance achievements of 104 percent.

Based on data from the Denpasar City Cooperative and MSME Office, in 2022 it can also be seen that the development of Bali's culture-based economy with the indicator "Percentage of MSMEs Towards Digital" target for 2022 is 22.25 percent with a realization of 25.64 percent in the very good category. The purpose of digitizing MSMEs is an effort to change the way MSME sector management works in general to digital MSME sector management. Digitalization of MSMEs is carried out in order to improve the performance of MSMEs more optimally, so that they can support a better economy. In this regard, it is clear that the performance achievements of MSMEs in Denpasar City have an important role in creating a better economy, so it is important to conduct a study on what factors can affect the performance of MSMEs.

One of the problems regarding the performance of MSMEs in Denpasar City is related to problems regarding the use of non-cash payments or through *digital payments*. The use of digital services by MSME players in Denpasar City is currently starting to increase, where many MSME players have used digital technology services such as *mobile banking*, QRIS, ATMs, Dana, OVO, GoPay, and ShoppePay and collaborated with Grab and Gojek e-commerce in expanding business marketing (Kustina & Aji, 2023). Based on the results of a study by the Demographic Institute FEB University of Indonesia quoted from www.balipost.com in 2022, it was revealed that Gojek was able to increase the GDP of Denpasar City by 12 percent and the turnover of MSMEs in Denpasar City that use GoPay services increased by 18 percent. The results of research conducted by the *Center for Strategic and International Studies* (CSIS) quoted on the www.tribunnews.com page in 2021 stated that MSMEs in Denpasar City that joined Grab were proven to increase income by 35

percent. The increase in MSME income through the use of *digital payments* indicates that the use of digitalization technology by MSME players in Denpasar City can support the improvement of MSME performance. However, there are still many MSME players in Denpasar City who in reality still do not utilize digital payments in businesses that are run optimally.

Other problems regarding the performance of MSMEs in Denpasar City can also be related to problems regarding the financial literacy of MSME actors in Denpasar City. The level of financial literacy in Denpasar City, precisely for MSME players, is still relatively low. The results of the National Financial Literacy and Inclusion Survey (SNLIK) conducted by the Financial Services Authority (OJK) in 2019 showed that the literacy rate of MSME actors in Denpasar City was 38.06 percent. MSMEs with a financial literacy level that is still below 60 percent can be stated that the level of financial literacy owned by MSME actors is relatively low (Margaretha, 2015). The low level of financial literacy of MSME actors in Denpasar City indicates that their financial knowledge and understanding tend to be low so that financial management or financial decision making tends to be not good. The performance of MSME actors produced tends to decline due to the lack of financial literacy so that MSME actors find it difficult to maintain business survival.

Optimization of MSME performance in Denpasar City is driven through financial inclusion. Financial inclusion is defined as an effort to reduce all forms of barriers, both price and non-price, to public access to utilize financial services (Maharani & Cipta, 2020). The success of MSMEs is not only influenced by the ability to create and market creative products, but there is an important role in the use of financial service products in producing optimal MSME performance. Based on the results of SNLIK in 2019, it shows that the financial inclusion index of Bali Province is quite high at 92.91 percent, while in Denpasar City, the financial inclusion index reached 68.3 percent. The difference in the achievement of the financial inclusion index in Denpasar City with the financial inclusion index of Bali Province is around 24.61 percent, so it still requires an increase in the financial inclusion index in Denpasar City. The increase in the financial inclusion index is carried out so that inequality does not occur with other districts / cities in Bali Province. The achievement of the Denpasar City financial inclusion index of 68.3 percent means that as many as 31.7 percent of MSME players in Denpasar City have not been able to take advantage of financial service products provided by financial institutions so that the resulting business performance is less than optimal.

Based on the description above, related to the performance problems of MSMEs in Denpasar City with problems regarding digital payments, *financial literacy, and financial inclusion in the performance produced by MSMEs in Denpasar City, it is important to conduct a study on these factors.*

Kwabena *et al.*, (2019) stated that *digital payments* are one of the determining factors for MSME performance. Nielsen (2016) states that digital payments or *digital payments* are transaction activities carried out on cellular so that transactions can be carried out on one type of device only. *Digital payment* can be interpreted as a payment method through electronic media by utilizing the internet as a transaction support network. The rapid development of technology can affect all aspects of life in society, including economic aspects. People in today's digital era are required to be able to utilize technology in the business world so that it is hoped that current technological advances can advance the community's economy. MSME actors in the business world are required to implement technological developments through digitalization of MSMEs so that they can help to create more optimal performance. The current digitalization of MSMEs is shown by the tendency of MSMEs to use digital payments in their business.

The Theory of Planned Behavior (TPB) explains that behavior generated by individuals arises because of the intention to behave (Ajzen, 2011). *Behavioral beliefs* as part of the SDGs can be understood as an individual's belief in the results of a behavior and the evaluation of those results. The individual before doing something will have confidence in the results obtained from his behavior. Furthermore, the person concerned will take the decision to do or not to do the act. Regarding digital payments, when MSME players *have confidence*

that the use of digital payments can create an increase in customer transactions, it will bring MSME players to increase sales so as to create an increase in MSME performance.

Research conducted by Kwabena *et al.*, (2019) found that using digital payments can improve the performance of MSMEs. The improvement in MSME performance through the use of *digital payments is shown through an increase in MSME sales after implementing digital payments.* The use of *digital payment services* by MSME players can increase transactions with customers because it is considered easier and more effective and able to increase sales revenue obtained (Lestari *et al.*, 2020). In line with these results, research conducted by Lenniawati & Anastasia (2020); Lestari *et al.*, (2020); and Rizkiyah *et al.*, (2021) also found that the implementation of non-cash payments through digital payments can improve business performance. The application of digital payment as a non-cash payment method makes it easier for users so that they tend to increase transactions that occur in MSME players so that it will have an impact on improving MSME performance.

Research conducted by Sinambela & Rohani (2017) found that digitalization in the payment system does not have a significant influence on the performance achievements of business actors. The application of digitalization in the payment system through cashless payments does not bring significant performance improvement if customer satisfaction with transactions is not achieved. This approach indicates that if the products offered by MSME players to customers are not in accordance with customer needs and desires, then customers have no interest in making purchases which in turn can reduce business performance as a result of decreasing the number of customer transactions.

Another factor besides *digital payments* that can determine the performance of MSMEs according to Hilmawati & Kusumaningtyas (2021) is financial literacy. Financial literacy is a person's awareness and knowledge of basic financial concepts including knowledge of financial instruments (Gunawan *et al.*, 2019). An MSME actor must have the ability to make his main decisions related to finance. *Theory of planned behavior* in *normative beliefs* can be understood as a belief about the normative expectations of others and the motivation to meet those expectations. Normative beliefs in MSME actors are shown through the belief that through good financial literacy, MSME actors can produce the right financial decisions for their businesses. MSME actors will determine the behavior that will be carried out to improve their financial literacy so that they can achieve more optimal business performance.

An MSME actor must have the ability to make his main decisions related to finance. The better the financial literacy you have, the more likely it will be to bring an increase in the performance of a business (Ye & Kulathunga, 2021). Research conducted by Ye & Kulathunga (2021) states that financial literacy has a strong positive relationship with business performance. Financial literacy owned by business actors can support business actors in making the right business decisions so as to bring businesses to achieve improved performance. In line with this, research conducted by Drexler *et al.*, (2014); Ratnawati (2016); Aribawa (2016); and Idawati & Pratama (2020) also prove that financial literacy has a positive and significant effect on business performance. Companies that have good financial literacy will be able to strategically identify and respond to changes in the business, economic and financial climate so that the decisions taken will create innovative and well-directed solutions for improving business performance and sustainability. In contrast to research conducted by Jumady *et al.*, (2022) which found that financial literacy has a negative influence on company performance. Business actors who have the ability and understanding of inappropriate financial decisions will eventually bring a decrease in the achievement of work produced in the business carried out.

Maharani & Cipta (2022) stated that financial inclusion can be one of the important factors affecting the performance of MSMEs. Financial inclusion is a comprehensive activity that aims to eliminate all forms of barriers both in the form of prices and non-prices to public access to use or utilize financial services (Yanti, 2019). Based on OJK regulation No. 76/POJK.07/2017, financial inclusion is the availability of financial access to financial services to improve public welfare. The distribution of MSMEs has an effect on the economic development of the community, but MSME actors still experience difficulties in developing their businesses due to difficult access to financial services.

Hilmawati & Kusumaningtias (2021) stated that the difficulty of access to financial services, especially access in terms of financing, occurs due to non-fulfillment of financing application requirements, so financial inclusion is needed to overcome these problems (Yanti, 2019). Easy access to finance makes financing the most important indicator in improving MSME performance which will eventually have implications for increased operating profits as well. The existence of financial inclusion can provide easier access to MSME actors in obtaining funding sources which will lead to improved business performance. Research conducted by Sanistasya et al., (2019) and Yanti (2019) found that the results of financial inclusion have a positive influence on the performance of MSMEs. When the financial inclusion of MSME players is getting higher, it means that many MSME players can take advantage of financial service products provided by financial institutions. Through the use of these financial service products, MSME players can carry out business operations optimally so that the resulting business performance will increase. In contrast to research conducted by Puspitasari & Astrini (2021), it was found that there was no influence on financial inclusion on MSME performance. Puspita & Astrini (2021) stated that currently there is *financial technology (fintech)* that replaces the work system of traditional financial institutions where fintech adaptability will affect the development of company strategies. The adaptation process to *fintech* is urgently needed to eliminate financial inclusion constraints so that financial inclusion no longer hampers MSME business performance (Marginingsih, 2019). Adaptation to *fintech* in everyday life individuals have a broad mindset so that they can better take advantage of existing opportunities to improve their business performance. If the mindset of business people is still limited to short-term business development and only limited to traditional financial access, it will be difficult to develop a business so that in this case financial inclusion no longer has a significant influence.

Given the important role of MSMEs in advancing the economy and the importance of MSME performance in achieving the success of a business, factors that can affect the performance of MSMEs are important things to study. Problems related to *digital payment*, financial literacy, and financial inclusion in MSMEs in Denpasar City as well as inconsistencies in previous research results make current researchers interested in conducting research again using financial inclusion as a mediation variable. Financial intermediation theory discusses one of the functions of financial service institutions, especially banks, which are the dominant supporters in a country's economy (Widodo, 2022). The intermediation function carried out by financial institutions, especially banks, is closely related to financial inclusion. Public decisions in buying financial products, both in terms of fund products (savings, deposits, investments, etc.) or financing products (KPR, KUR, KKB and so on), automatically move the intermediation function. The implementation of the intermediation function of financial institutions as the main source of funding for MSME players has increased the application of financial inclusion in the MSME sector. *Theroy of planned behavior on control beliefs*, it can be understood that in running a business, there are several factors that can hinder the running of a business, one of which is access to finance. Financial access in this case is related to the access of business actors to financial institutions. This problem in financial access is overcome by financial inclusion which is a comprehensive study to eliminate various barriers related to the use and utilization of financial institution services by the public (Yanti, 2019).

Aprilia (2022) stated that the use of a cashless payment system through *digital payments* would encourage the level of financial inclusion of the community. *Digital payments* can create efficient transactions that can reduce the cost of banking services including credit costs and encourage financial inclusion by providing more efficient transaction options and a wider reach. The existence of *this digital payment* makes users do not need to worry about space and time restrictions in conducting financial transactions, because by utilizing the internet network and supported by *e-wallets*, users can make transactions in real-time. *Digital payment* can help people who were previously *unbanked* become banked people because it allows users to be able to make transactions via mobile anywhere and anytime at a very low cost, even without any service fees.

Someone with a good understanding of finance (*well literate*) will have an impact on the

level of financial inclusion, where the higher a person's financial literacy level, the greater one's chances of utilizing financial products and services (Aprilia, 2022). Expansion of people's financial access will occur when people have good financial knowledge and understanding. Someone who already has a good understanding of finance will be able to utilize financial products and services according to their needs. Hutabarat (2018) stated that the higher a person's financial literacy, the higher the use, utilization and understanding of financial products and services.

Both things related to the direct relationship between digital payments and financial literacy to financial inclusion make researchers make financial inclusion a variable mediator in the indirect relationship between digital payments and financial literacy to MSME performance. The use of financial inclusion as a mediating variable is expected to determine the relationship between digital payments and financial literacy of MSME players in Denpasar City so as to increase financial inclusion in MSME players in Denpasar City. This increase in financial inclusion can later help MSME players in Denpasar City in optimizing performance challenges. Based on this description, researchers conducted research on the topic "The Effect of Digital Payment and Financial Literacy on MSME Performance with Financial Inclusion as a Mediation Variable".

LITERATURE REVIEW

The theory of planned behavior (TPB) explains that behavior caused by individuals arises because of the intention to behave (Ajzen, 2011). This theory is a psychological theory that connects a belief and behavior to explain the purpose of behavior carried out by an individual (Gitaru, 2017). According to this theory, the behavior of individuals in a society is influenced by several factors for certain reasons and arises in a planned manner. There are several factors that give rise to the intention to behave (Ghouri *et al.*, 2016), namely Behavioral beliefs, Normative beliefs, and Control beliefs.

The American Finance Association Financial Intermediaries and the Saving Investment states that the theory of financial intermediation discusses one of the functions of financial service institutions, especially banking. Banking has the main task as a dominant supporter in a country's economy with the task of intermediating funds from the excess funds to the underfunded. The importance of this intermediation function is so that the wheels of the economy can continue to run well so that economic stability can be achieved (Widodo, 2022).

Digital payment is a representative of all non-cash payments, which is also interpreted as an electronic payment transaction between buyer and seller business people using savings accounts through the internet or electronic network. Digital payments are used today for long-distance transactions such as online shopping, along with the growing use of the internet and the increasing number of e-commerce, digital payments are solutions that are present to replace the old payment transaction tools. Included in electronic payments are ATMs, e-money, internet banking, credit cards, debit, mobile payments, mobile banking (Teoh *et al.*, 2013).

Financial literacy is a person's awareness and knowledge of basic financial concepts including knowledge of financial instruments and applying them to business and life such as managing finances about financial management, savings and loans, insurance and investment. The higher the level of financial literacy of a person will be seen in financial behavior and wisdom in managing finances effectively (Gunawan *et al.*, 2019).

Financial Inclusion is a comprehensive activity that aims to eliminate all forms of barriers both in the form of prices and non-prices to public access to use or utilize financial services (Yanti, 2019). Financial inclusion is also defined as the proportion of individuals and companies who use financial products and services by the process of promoting affordable, timely and adequate access to a range of regulated financial products and services and expanding their use by all segments of society through the application of existing approaches including financial awareness and education with a view to promoting financial well-being as well as economic and social inclusion (Pulungan & Nduru, 2019).

Performance is the result of work that can be achieved by a person or group of people in a company in accordance with their respective authorities and responsibilities in an effort to achieve organizational goals illegally, does not violate the law and does not conflict with morals and ethics (Afandi, 2018).

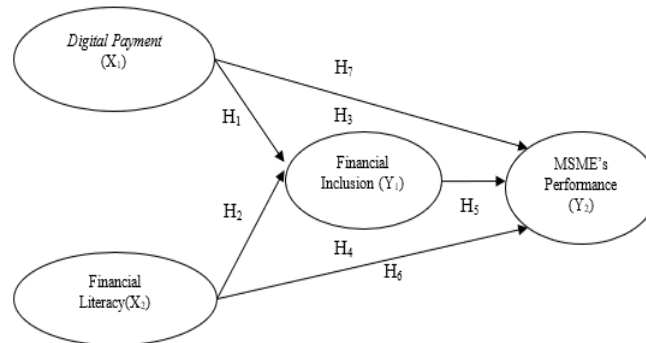


Figure 1 – Research Hypothesis:

- H1: *Digital payments* have a positive effect on financial inclusion;
- H2: Financial literacy has a positive effect on financial inclusion;
- H3: *Digital payments* have a positive effect on MSME performance;
- H4: Financial literacy has a positive effect on MSME performance;
- H5: Financial inclusion has a positive effect on MSME performance;
- H6: Financial inclusion mediates the influence of *digital payments* on MSME performance;
- H7: Financial inclusion mediates the effect of financial literacy on MSME performance.

METHODS OF RESEARCH

This research is a type of quantitative research. The location of the research was carried out on MSMEs in Denpasar City. The population in this study is all MSMEs in Denpasar City during 2022, amounting to 8,327 units. The sample was determined by the purposive sampling method and calculated based on the Slovin formula so that a sample of 100 MSMEs was obtained. Data collected using questionnaires. The data analysis technique used in this study used PLS-based SEM.

RESULTS AND DISCUSSION

When filling out the questionnaire, the respondents in this study had a variety of features or identities. Table 1 shows the following characteristics of the respondents.

Table 1 – Characteristics of Respondents

No.	Characteristics of Respondents	Frequency	Percentage (%)
1	By Age		
	25-35 years	46	46
	36-44 years	18	18
	45-50 years	21	21
	>50 years	15	15
	Total	100	100
3	Based on Recent Education		
	High School	16	16
	3-year Diploma	29	29
	Degree	37	37
	Magister	13	13
	Others	5	5
	Total	100	100
4	Based on Length of Business		
	< 2 years	28	28
	2-5 years	42	42
	5-10 years	20	20
	> 10 years	10	10
	Total	100	100

Source: Primary data processed, 2023.

Based on Table 1, it can be seen that the majority of respondents in this study were aged between 25-35 years, namely as many as 46 respondents with a percentage of 46% with the last education of Degree, which was 37 people with a percentage of 3% and had a business with a length of business in a period of between 2-5 years, which was 42 respondents with a percentage of 42%.

The link between the indicator score and the variable score demonstrates convergence validity with reflection indicators. Individual indicators are regarded legitimate if they have a correlation value greater than 0.70, although for freshly created research, a correlation value greater than 0.60 is adequate (Ghozali, 2014: 43). Table II presents the results of convergent validity testing, which reveals that all outer loading indicators in this study variable have a value larger than 0.70, implying that all indicators have satisfied the conditions of convergent validity and are deemed valid.

Table 2 – Results of Convergent Validity

Indicator	Digital Payment (X1)	Financial Inclusion (Y1)	MSMEs's Performance (Y2)	Financial Literacy (X2)
Y11		0,799		
Y12		0,805		
Y13		0,862		
Y14		0,891		
Y15		0,738		
X11	0,871			
X12	0,837			
X13	0,814			
X14	0,882			
X15	0,787			
X21				0,957
X22				0,970
X23				0,981
Y11			0,876	
Y12			0,888	
Y13			0,851	
Y14			0,799	

Source: Primary data processed, 2023.

Discriminant Cross loading measures using constructs are used to test the validity of the reflective measurement model and indicators. The indicator is considered to be legitimate if the cross loading value of each indicator of the variable in question is larger than the cross loading value of other variables. The discriminant validity test yielded the following results:

Table 3 – Cross Loading Value

Indicator	Digital Payment (X1)	Financial Inclusion (Y1)	MSMEs's Performance (Y2)	Financial Literacy (X2)
Y11	0,685	0,799	0,763	0,707
Y12	0,524	0,805	0,543	0,529
Y13	0,557	0,862	0,624	0,527
Y14	0,654	0,891	0,688	0,577
Y15	0,563	0,738	0,546	0,466
X11	0,871	0,669	0,698	0,598
X12	0,837	0,609	0,516	0,536
X13	0,814	0,630	0,552	0,581
X14	0,882	0,652	0,708	0,580
X15	0,787	0,513	0,595	0,488
X21	0,644	0,639	0,775	0,957
X22	0,640	0,693	0,823	0,970
X23	0,652	0,686	0,838	0,981
Y21	0,572	0,628	0,876	0,586
Y22	0,586	0,658	0,888	0,595
Y33	0,668	0,710	0,851	0,941
Y24	0,669	0,657	0,799	0,657

Source: Primary data processed, 2023.

According to Table 3 above, there is extremely excellent discriminant validity. Because the cross loading value of each indicator of the variable in question is larger than the cross loading value of other variables, the data discriminant validity utilizing cross loading in this study is certified valid. The Fornell-Larcker criteria technique is another way for testing discriminant validity. The Fornell-Larcker criteria compares average variance extracted (AVE) roots to latent or construct variable correlations. The AVE root of each construct, in particular, should be greater than the correlation with other constructs.

Table 4 – Results of the Fornell-Larcker Criterion Approach

	Digital Payment (X1)	Financial Inclusion (Y1)	Performance MSMEs (Y2)	Financial Literacy (X2)
Digital payment (X1)	0,839			
Financial Inclusion (Y1)	0,736	0,821		
MSMEs's Performance (Y2)	0,737	0,783	0,854	
Financial Literacy (X2)	0,665	0,695	0,838	0,970

Source: Primary data processed, 2023.

Table 4 shows that in the *Fornell-Larcker criterion approach*, the roots of the AVE value are higher compared to other constructs. In this case, it can be stated that the data discriminant validity using the *Fornell-Larcker criterion approach* in this study was declared valid.

The construct reliability test is measured by two criteria, namely *composite reliability* and *Cornbach alpha* from the indicator block that measures variables. The variable is declared reliable if the value of *composite reliability* and *Cornbach alpha* is above 0.70. The results of *composite reliability* can be seen in Table 5. Table 5 shows that the results of *composite reliability* and *cornbach alpha* from the variables of revisit intention, tourist experience, quality of service along with its five dimensions and destination image all have values above 0.70. This shows that all variables in this study are declared reliable.

Table 5 – Composite Reliability Results

	Cronbach's Alpha	Composite Reliability
Digital payment (X1)	0,894	0,922
Financial Inclusion (Y1)	0,878	0,911
Performance MSMEs (Y2)	0,877	0,915
Financial Literacy (X2)	0,968	0,979

Source: Primary data processed, 2023.

The R-square value is used to test the inner model, which is a goodness of fit model test. The R-square predictive relevance for the variable model may be used to evaluate the R-square of the PLS model. R-square measures how well the observed values and parameter estimations are produced by the model. The R-square value is used to determine the magnitude (percentage) of the influence of exogenous variables on endogenous variables; the range of R-square values is 0-1. If the R-square value is close to zero, the effect of exogenous variables on endogenous variables is weaker, and vice versa; if it is close to one, the effect of exogenous variables on endogenous variables is stronger. The R-square value is a variable that can be seen in Table 6.

Table 6 – R-square value results

	R Square	R Square Adjusted
Financial Inclusion (Y1)	0,617	0,609
MSMEs's Performance (Y2)	0,793	0,787

Source: Primary data processed, 2023.

Based on the table 6, it can be seen that the value of the R2 coefficient of determination of the financial inclusion variable is 0.617 where this result means that 61.7

percent of financial inclusion variables can be influenced or explained by *digital payment* and financial literacy variables, while the remaining 38.3 percent is influenced by other factors outside the research model. The value of the R² coefficient of determination of MSME performance variables is 0.793 where this result means that 79.3 percent of MSME performance variables can be influenced or explained by *digital payment* variables, financial literacy, and financial inclusion, while the remaining 20.7 percent is influenced by other factors outside the research model.

Testing the direct effect hypothesis using Partial Least Square (PLS) will show five hypotheses. The hypothesis test aims to determine how much influence the independent variables have on the dependent variable. Significance value can be obtained by using bootstrapping technique. The statistical test used to test the hypothesis is the t test on each path of influence between variables. The results of the direct influence test by bootstrapping from the PLS analysis can be seen in Table 7.

Table 7 – Path Coefficients Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	t Statistics	P Values
Digital payment (X1) -> Financial Inclusion (Y1)	0,490	0,483	0,097	5,060	0,000
Digital payment (X1) -> MSMEs's Performance (Y2)	0,178	0,171	0,076	2,336	0,020
Financial Inclusion (Y1)-> MSMEs's Performance (Y2)	0,294	0,295	0,068	4,334	0,000
Financial Literacy (X2) -> Financial Inclusion (Y1)	0,368	0,371	0,100	3,690	0,000
Financial Literacy (X2) -> MSMEs's Performance (Y2)	0,515	0,522	0,078	6,615	0,000
Digital payment (X1) -> Financial Inclusion (Y1) -> MSMEs's Performance (Y2)	0,144	0,142	0,044	3,254	0,001
Financial Literacy (X2) -> Financial Inclusion (Y1) -> MSMEs's Performance (Y2)	0,108	0,109	0,040	2,718	0,007

Source: Primary data processed, 2023.

Based on the results of *bootstrapping* analysis, it can be explained the influence of independent variables with dependent variables used in this study, which is as follows. The value of the path coefficient obtained is positive, which is 0.490 with t-statistic = 5.060 > t-table = 1.98498 and p-values = 0.000 < 0.05. The results of this study show that H1 is accepted, which means that *digital payments* have a positive and significant effect on financial inclusion in MSMEs in Denpasar City.

The value of the path coefficient obtained is positive, which is 0.368 with t-statistic = 3.690 > t-table = 1.98498 and p-values = 0.000 < 0.05. The results of this study show that H2 is accepted, where financial literacy has a positive and significant effect on financial inclusion in MSMEs in Denpasar City. The value of the path coefficient obtained is positive, which is 0.178 with t-statistic = 2.336 > t-table = 1.98498 and p-values = 0.020 < 0.05. The results of this study show that H3 is accepted, where *digital payments* have a positive and significant effect on the performance of MSMEs in Denpasar City.

The value of the path coefficient obtained is positive, which is 0.515 with t-statistic = 6.615 > t-table = 1.98498 and p-values = 0.000 < 0.05. The results of this study show that H4 is accepted, where financial literacy has a positive and significant effect on the performance of MSMEs in Denpasar City. The value of the path coefficient obtained is positive, which is 0.294 with t-statistic = 4.334 > t-table = 1.98498 and p-values = 0.000 < 0.05. The results of this study show that H5 is accepted, where financial inclusion has a positive and significant effect on the performance of MSMEs in Denpasar City.

The value of the path coefficient obtained is positive, which is 0.144 with t-statistic = 3.254 > t-table = 1.99346 and p-values = 0.001 < 0.05. The results of this study show that H6 is accepted, where financial inclusion mediates the influence of *digital payments* on the performance of MSMEs in Denpasar City. *Digital payments* indirectly have a positive and significant effect on the performance of MSMEs through financial inclusion.

The value of the path coefficient obtained is positive, which is 0.108 with t-statistic = 2.718 > t-table = 1.99346 and p-values = 0.007 < 0.05. The results of this study show that H7

is accepted, where financial inclusion mediates the influence of financial literacy on the performance of MSMEs in Denpasar City. Financial literacy indirectly has a positive and significant effect on the performance of MSMEs through financial inclusion.

Determining the mediating effect provided by financial inclusion in mediating the influence of *digital payments* and financial literacy on MSME performance is determined using VAF or *Variance Accounted For*. This VAF test uses criteria where if the VAF value is above 0.8 or 80 percent, then the role of the mediation variable is categorized as *full mediation*. If the VAF value is between 0.2 to 0.8 or 20 to 80 percent, then the role of the mediation variable is categorized as *partial mediation*. If the VAF value is less than 0.2 or 20 percent, the mediation variable used has no mediation effect (Chin, 1998). Based on VAF calculations, a value of 0.285 was obtained for the mediating effect of financial inclusion on the effect of financial literacy on MSME performance and 0.221 for the mediating effect of financial inclusion on the effect of digital payments on MSME performance. This means that the financial inclusion variable has a role as a partial mediator between the influence of *digital payments* and financial literacy on the performance of MSMEs in Denpasar City.

DISCUSSION OF RESULTS

The implementation of the intermediation function of financial institutions as the main source of funding for MSME players has increased the application of financial inclusion in the MSME sector. *Theory of planned behavior on control beliefs*, it can be understood that in running a business, there are several factors that can hinder the running of a business, one of which is access to finance. Financial access in this case is related to the access of business actors to financial institutions. This problem in financial access is overcome by financial inclusion which is a comprehensive study to eliminate various barriers related to the use and utilization of financial institution services by the public (Yanti, 2019).

Aprilia (2022) stated that the use of a cashless payment system through digital payments would encourage the level of financial inclusion of the community. Digital payments can create efficient transactions that can reduce the cost of banking services including credit costs and encourage financial inclusion by providing more efficient transaction options and a wider reach. The existence of this digital payment makes users do not need to worry about space and time restrictions in conducting financial transactions, because by utilizing the internet network and supported by e-wallets, users can make transactions in real-time. Digital payment can help people who were previously unbanked become banked people because it allows users to be able to make transactions via mobile anywhere and anytime at a very low cost, even without any service fees.

The results of this study are in line with research conducted by Widodo (2022); Stella (2019); and Aprilia (2020) also states that cashless payments by utilizing digital payments have a significant positive influence on financial inclusion.

Financial inclusion should be achieved through education to improve citizens' financial literacy. Financial literacy will increase people's willingness to participate in the formal financial sector. A good financial system today is a system that provides various financial products to meet the needs of the community in terms of savings, loans, payments, and *risk management* (Widodo, 2022). The financial system is said to be inclusive if it allows broad access to financial services without price barriers for its users, especially those with low income (Kunt *et al.*, 2017).

Increasing access to financial services does not automatically provide effective benefits due to possible information asymmetries between financial institutions and society, especially those with low economies (Cohen & Nelson, 2018). In this regard, financial literacy has an important role in balancing this. Financial knowledge provides individuals with the knowledge and skills they need to assess whether a financial product is suitable for use and can improve their financial status and financial inclusion.

Someone with a good understanding of finance (well literate) will have an impact on the level of financial inclusion, where the higher a person's financial literacy level, the greater one's chances of utilizing financial products and services (Aprilia, 2022). Expansion of

people's financial access will occur when people have good financial knowledge and understanding. Someone who already has an understanding of good finance will be able to utilize financial products and services according to their needs. Hutabarat (2018) stated that the higher a person's financial literacy, the higher the use, utilization and understanding of financial products and services. Shen et al., (2018) also found that financial literacy has a significant positive influence on financial inclusion. The better the knowledge and understanding of finance possessed by a business actor, it tends to increase financial inclusion.

The results of this study are in line with research conducted by Hutabarat (2018) and Shen et al., (2018) found that financial literacy has a significant positive influence on financial inclusion. That is, the better the knowledge and understanding of finance possessed by a business actor, it tends to increase financial inclusion.

Digital payment can be interpreted as a payment method through electronic media by utilizing the internet as a transaction support network. The rapid development of technology can affect all aspects of life in society, including economic aspects. People in today's digital era are required to be able to utilize technology in the business world so that it is hoped that current technological advances can advance the community's economy. MSME actors in the business world are required to implement technological developments through digitalization of MSMEs so that they can help to create more optimal performance. The current digitalization of MSMEs is shown by the tendency of MSMEs to use digital payments in their business.

The Theory of Planned Behavior (TPB) explains that behavior generated by individuals arises because of the intention to behave (Ajzen, 2011). Behavioral beliefs as part of the SDGs can be understood as an individual's belief in the results of a behavior and the evaluation of those results. The individual before doing something will have confidence in the results obtained from his behavior. Furthermore, the person concerned will take the decision to do or not to do the act. Regarding digital payments, when MSME players have confidence that *the use of digital payments can create an increase in customer transactions, it will bring MSME players to increase sales so as to create an increase in MSME performance.*

The results of this study are in line with research conducted by Kwabena et al., (2019) which found that using digital payments can improve the performance of MSMEs. The improvement in MSME performance through the use of *digital payments is shown through an increase in MSME sales after implementing digital payments.* The use of *digital payment* services by MSME players can increase transactions with customers because it is considered easier and more effective and able to increase sales revenue obtained (Lestari et al., 2020). In line with these results, research conducted by Lenniawati & Anastasia (2020); Lestari et al., (2020); and Rizkiyah et al., (2021) also found that the implementation of non-cash payments through digital payments can improve business performance. The application of digital payment as a non-cash payment method makes it easier for users so that it tends to increase transactions that occur in MSME players so that it will have an impact on improving MSME performance.

The fourth hypothesis (H4) in this study states that financial literacy has a positive effect on the performance of MSMEs. Based on the analysis conducted, it can be seen that financial literacy has a positive and significant effect on the performance of MSMEs in Denpasar City. Financial literacy is a person's awareness and knowledge of basic financial concepts including knowledge of financial instruments (Gunawan et al., 2019). An MSME actor must have the ability to make his main decisions related to finance. *Theory of planned behavior* in normative beliefs *can be understood as a belief about the normative expectations of others and the motivation to meet those expectations.* Normative beliefs in MSME actors are shown through the belief that through good financial literacy, MSME actors can produce the right financial decisions for their businesses. MSME actors will determine the behavior that will be carried out to improve their financial literacy so that they can achieve more optimal business performance.

An MSME actor must have the ability to make his main decisions related to finance. The better the financial literacy you have, the more likely it will be to bring an increase in the

performance of a business (Ye & Kulathunga, 2021). The results of this study are in line with Ppnelitian conducted by Ye & Kulathunga (2021) which states that financial literacy has a strong positive relationship with business performance. Financial literacy owned by business actors can support business actors in making the right business decisions so as to bring businesses to achieve improved performance. The results of this study are also in line with research conducted by Drexler *et al.*, (2014); Ratnawati (2016); Aribawa (2016); and Idawati & Pratama (2020) which proves that financial literacy has a positive and significant effect on business performance. Business actors who have good financial literacy will be able to strategically identify and respond to changes in the business, economic and financial climate so that the decisions taken will create innovative and well-directed solutions for improving business performance and sustainability.

The fifth hypothesis (H5) in this study states that financial inclusion has a positive effect on the performance of MSMEs. Based on the analysis conducted, it can be seen that financial inclusion has a positive and significant effect on the performance of MSMEs in Denpasar City.

MSMEs are one of the main sectors driving the community's economy. However, MSME players still experience difficulties in developing their businesses due to difficult access to financial services. Based on the Theory of planned behavior in the control beliefs section in this study related to financial inclusion, where financial inclusion is an effort to increase public access to financial services by removing barriers. There are several factors that can hinder the running of a business, one of which is financial access. Financial access in this case relates to access that can be reached by business actors to financial services that can provide funding sources, especially for MSME actors. Financial access can be hampered when the requirements of a person in obtaining funding sources for a financial service, so this can create obstacles that can influence MSME actors in making decisions related to their financial affairs.

Maharani & Cipta (2022) stated that financial inclusion can be one of the important factors affecting the performance of MSMEs. Financial inclusion is a comprehensive activity that aims to eliminate all forms of barriers both in the form of prices and non-prices to public access to use or utilize financial services (Yanti, 2019). Based on OJK regulation No. 76/POJK.07/2017, financial inclusion is the availability of financial access to financial services to improve public welfare. The distribution of MSMEs has an effect on the economic development of the community, but MSME actors still experience difficulties in developing their businesses due to difficult access to financial services.

Hilmawati & Kusumaningtias (2021) stated that the difficulty of access to financial services, especially access in terms of financing, occurs due to non-fulfillment of financing application requirements, so financial inclusion is needed to overcome these problems (Yanti, 2019). Easy access to finance makes financing the most important indicator in improving MSME performance which will eventually have implications for increased operating profits as well. The existence of financial inclusion can provide easier access to MSME actors in obtaining funding sources which will lead to improved business performance.

The results of this study are in line with research conducted by Sanistasya *et al.*, (2019) and Yanti (2019) found that financial inclusion has a positive influence on the performance of MSMEs. When the financial inclusion of MSME players is getting higher, it means that many MSME players can take advantage of financial service products provided by financial institutions. Through the use of these financial service products, MSME players can carry out business operations optimally so that the resulting business performance will increase.

Theory of planned behavior on control beliefs, it can be understood that in running a business, there are several factors that can hinder the running of a business, one of which is access to finance. Financial access in this case is related to the access of business actors to financial institutions. This problem in financial access is overcome by financial inclusion which is a comprehensive study to eliminate various barriers related to the use and utilization of financial institution services by the public (Yanti, 2019).

Aprilia (2022) stated that the use of a cashless payment system through *digital payments* would encourage the level of financial inclusion of the community. *Digital payments* can create efficient transactions that can reduce the cost of banking services including credit costs and encourage financial inclusion by providing more efficient transaction options and a wider reach. The existence of *this digital payment* makes users do not need to worry about space and time restrictions in conducting financial transactions, because by utilizing the internet network and supported by *e-wallets*, users can make transactions in *real-time*. *Digital payment* can help people who were previously *unbanked* become banked people because it allows users to be able to make transactions via mobile anywhere and anytime at a very low cost, even without any service fees.

The results of this study are in line with research conducted by Widodo (2022) which found that financial inclusion can mediate the influence exerted by *digital payments* on business performance. In line with these results, research conducted by Safrianti *et al.*, (2022) and Aprilia (2022) also found that indirectly, *digital payments* have a positive influence on MSME performance through financial inclusion.

Based on the *theory of planned behavior* in control beliefs, *it can be understood that in* running a business, there are factors that hinder the running of a business. One of the inhibiting factors for business actors is financial access. Financial inclusion plays a role in overcoming financial access problems by business actors (Widyaningsih *et al.*, 2021). The existence of financial inclusion can affect financial decisions that will be taken by a business actor related to his finances. Barriers to financial access that are eliminated will help MSME players to have more optimal abilities in making appropriate financial decisions. Financial knowledge provides the knowledge and skills individuals need to assess whether a financial product is suitable for use and can improve its financial status (Cohen & Nelson, 2018). The better the financial knowledge possessed by a business actor supported by easy access to finance, the better financial decisions will be created which will ultimately bring an increase in business performance produced.

Someone with a good understanding of finance (*well literate*) will have an impact on the level of financial inclusion, where the higher a person's financial literacy level, the greater one's chances of utilizing financial products and services (Aprilia, 2022). Expansion of people's financial access will occur when people have good financial knowledge and understanding. Someone who already has a good understanding of finance will be able to utilize financial products and services according to their needs. Business actors through the use of financial services or services products will encourage their business to achieve more optimal performance.

The results of this study are in line with research conducted by Safrianti *et al.*, (2022) which found that financial literacy mediated with financial inclusion can improve the performance of MSMEs. The results of this study are also in line with research conducted by Purba (2020) and Choiriyah (2022) which found that through financial inclusion, financial literacy owned by business actors can improve the resulting business performance. Through the use of financial products or services carried out by business actors, it will encourage their business to achieve more optimal performance.

IMPLICATIONS OF RESEARCH RESULTS

This research can theoretically provide additional knowledge and broader insight regarding the influence of digital payments and financial literacy on the performance of MSMEs mediated by financial inclusion in Denpasar City. The results of this research found that digital payments, financial literacy and financial inclusion directly influence the performance of MSMEs, while indirectly digital payments and financial literacy influence the performance of MSMEs through finance inclusion. The results of this research support the Theory of Planned Behavior that is, a behavior will be influenced by behavioral intentions.

Before an individual does something, they will have confidence in the results obtained from their behavior, then the person concerned will make a decision to do or not take that action. Likewise with MSME actors, before making decisions related to finances, MSME

actors will have confidence in the results they will obtain and then make a decision to carry out or not carry out these actions. It is hoped that the convenience offered by current financial digitalization can help MSMEs to improve their performance. When MSME players have the belief that implementing digital payments can help improve their business performance, MSME players will tend to use digital payments in their business. An MSME player who believes that having good financial literacy can produce the right financial decisions for his business so that it can have a good impact on the resulting business performance.

This research can provide benefits both directly and indirectly to interested parties:

1) For MSME players in Denpasar City, this research can provide input regarding improving performance through the use of digital payments, increasing financial literacy, as well as the reach of financial inclusion wider so that MSME players can create more optimal performance and achieve business sustainability. The existence of financial inclusion can certainly influence MSME players in making financial decisions, especially regarding the implementation of digital payments and financial literacy. Reducing barriers to financial access will make it easier for MSME players to implement digital payments in their businesses so that they can support business actors to produce more optimal MSME performance. Likewise with financial literacy, when obstacles to financial access are removed, MSMEs will have more optimal abilities in making decisions related to finance, so that appropriate financial decisions can trigger increased business performance.

2) For the government, the results of this research can be used in making policies both through regulations and work programs to improve the performance of MSMEs in Denpasar City so that it can have a positive impact on the economy of the people in Denpasar City.

3) For future researchers, the results of this research can be used as consideration and reference for future researchers who are interested in researching the same study in the future.

CONCLUSION

Based on the results of research and discussion that have been described in the previous chapter, it can be concluded as follows.

- *Digital payments* have a positive and significant effect on financial inclusion in MSMEs in Denpasar City. The more innovation and development in digital payments, it tends to bring significant changes to financial inclusion;
- Financial literacy has a positive and significant effect on financial inclusion in MSMEs in Denpasar City. The better the knowledge and understanding of finance possessed by a business actor, the more likely it is to increase financial inclusion;
- *Digital payments* have a positive and significant effect on the performance of MSMEs in Denpasar City. Through the existence of non-cash payments by utilizing digital media, it can provide convenience for users, which will then have an impact on improving the performance of MSMEs;
- Financial literacy has a positive and significant effect on the performance of MSMEs in Denpasar City. The better the financial literacy of a business actor, the more likely it is to bring an increase in the performance of MSMEs;
- Financial inclusion has a positive and significant effect on the performance of MSMEs in Denpasar City. The better the financial inclusion, the better the performance produced by MSMEs;
- Financial inclusion mediates the influence of *digital payments* on the performance of MSMEs in Denpasar City. The use of *digital payments* by business actors can improve their business performance, especially accompanied by financial inclusion that makes it easier for business actors to get financial access, which in turn will bring an increase in MSME performance;

- Financial inclusion mediates the influence of financial literacy on the performance of MSMEs in Denpasar City. Through financial inclusion, financial literacy owned by business actors can improve the resulting business performance.

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