

THE EFFECT OF FINANCIAL LITERACY AND FINANCIAL INCLUSION ON THE PERFORMANCE OF MSMEs IN BANGKALAN DISTRICT

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Abstract

Micro, Small and Medium Enterprises (MSMEs) have an important role in national economic growth. MSME actors who understand financial literacy and have access to financial services will encourage their business performance. This study aims to determine the effect of financial literacy and financial inclusion on the performance of MSMEs in Bangkalan Regency. This study uses primary and secondary data. Primary data was obtained by distributing questionnaires. The analytical model used in this study is multiple linear regression analysis. The results showed that the financial literacy variable had no effect on the performance of MSMEs in Bangkalan Regency due to the impact of the Covid 19 pandemic which weakened the performance of MSMEs. The financial inclusion variable has a significant positive effect on the performance of MSMEs in Bangkalan Regency. Based on the results of the F test, it shows that the variables of financial literacy and financial inclusion together affect the performance of MSMEs in Bangkalan Regency with an r-square value of 60.3%

Keywords: Micro, Small and Medium Enterprises (MSMEs), financial literacy, financial inclusion, performance

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have an important and crucial role in the economic growth of a country. The purpose of MSMEs according to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises is to grow and develop businesses in the context of building a national economy based on just economic democracy. MSMEs in Indonesia themselves have a significant contribution or role in the expansion and absorption of new workers, the formation of Gross Domestic Product (GDP), and a business safety net for low-income people in carrying out productive economic activities. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) in March 2021, the number of MSME actors in Indonesia reached 64.2 million with a contribution to gross domestic product (GDP) of 61.07% or Rp. 8,573.89 trillion. MSMEs are able to absorb 97% of the total workforce and are able to collect up to 60.42% of total investment in Indonesia.

The COVID-19 pandemic has impacted the national and global economy towards an economic recession. This is marked by negative national and global economic growth or contraction. The contraction was caused by a decrease in household consumption, a decrease in investment spending, a decrease in government spending, and a sharp decline in foreign trade. One of the sectors that was hardest-hit by the Covid-19 pandemic was MSMEs, which also significantly impacted on the decline of the national economy because of MSMEs have a significant contribution to the national economy. To overcome this, the government has implemented the National Economic Recovery (PEN) program. One of the targets of the PEN program is to mobilize MSMEs. The government has issued policies, including loan interest subsidies, credit restructuring, providing working capital guarantees and tax incentives.

Based on data from the Bangkalan Regency Government, the number of MSMEs in Bangkalan Regency in 2021 is 22,500. It is approximately 19,000 MSME actors in Bangkalan Regency in 2022 have received business capital assistance from the government with the aim of restoring the community's economy due to the Covid-19 pandemic. This capital assistance was given due to the declining performance of MSMEs in Bangkalan Regency as a result of the pandemic which also causes low people's purchasing power so that sales and profits decline from the previous year.

MSME actors who have good financial knowledge will encourage their ability to deal with MSMEs' finances so that they can control income, expenditure, savings, and all matters relating to the financial condition of their business. One of the factors that can improve the performance of MSMEs is financial literacy. According to Soetiono and Setiawan (2018) in the book *Indonesian Financial Literacy and Inclusion* states that Financial Literacy is knowledge, skills and beliefs, which influence attitudes and behavior to improve

the quality of decision making and financial management in order to achieve prosperity. In 2019, The Financial Services Authority (OJK) conducted the National Survey of Financial Literacy and Inclusion (SNLIK) and the result showed that the 2019 financial literacy and financial inclusion levels were 38.03% and 76.19%. The results indicate an increase from the previous year. The survey results indicated the understanding and use of products or services for rural communities is still quite lagging behind compared to people living in urban areas.

Anshika, Singla, A., and Mallik, G. (2021) investigated the factors that influence financial literacy in small and medium enterprises in India. The results of the study showed that the most influencing factor is the gross profit of SMEs, it significantly increases the financial literacy of these SMEs. This result is consistent with Wahyono and Hutahayan (2020) who conducted research on the relationship between market orientation, learning orientation, financial literacy toward knowledge competence, innovation, and performance of small and medium textile industries in Java and Bali. The results showed that there was a significant influence between financial literacy and the performance and innovation of small and medium enterprises (SMEs) in Central Java. These results are in line with Kersten et al. (2017) who investigated the impact of the financial literature on small and medium enterprises in LMIC (low or middle-income countries) and the results showed that there was a significant positive effect of the SME finance literature on capital investment, company performance, and employment.

Pomeroy, R., et al. (2020) investigated financial inclusion to build economic resilience in small-scale businesses. The results of this study indicated that access to formal financial services, known as financial inclusion, can increase the financial resilience of small businesses. This study examines the barriers to financial inclusion of small-scale enterprises such as financial literacy and ability, lack of assets for collateral, geographical distance from financial institutions, and lack of formal identification. This study also discussed solutions to overcome obstacles with financial literacy, collecting financial data, understanding the condition of SMEs, and others, thus enabling SMEs to control their income and savings. The result of this study was in line with the research of Zulkieflimansyah et al. (2020) which found that financial literacy had a significant effect on the financial performance of SMEs by including finance as an intermediary.

Based on previous research, this study aims to determine the effect of financial literacy and financial inclusion on the performance of MSMEs in Bangkalan Regency.

METHOD

Definition of Micro, Small and Medium Enterprises

Micro, Small and Medium Enterprises (MSMEs) are a branch of the development of creative industries in the economy of each country. According to Law of Republic Indonesia Number 20 of 2008 on Micro, Small, and Medium Enterprises, the definition of UMKM is explained in each type of business, as follow:

1. Micro Enterprises shall be productive businesses owned by individual persons and/or individual business entities that meet the criteria of Micro Enterprises as provided for herein..
2. Small Enterprises shall be productive economic businesses standing alone, done by individual persons or business entities not constituting subsidiaries or not constituting company branches owned, controlled, or becoming direct or indirect portions of Medium or Large Enterprises that meet the criteria of Small Enterprises as intended herein
3. Medium Enterprises shall be productive economic businesses standing alone, done by individual persons or business entities not constituting subsidiaries or not constituting company branches owned, controlled, or becoming direct or indirect portions of Small or Large Enterprises with the amount of net assets or annual sales proceeds as provided for herein.

MSMEs Criteria

According to Law of Republic Indonesia Number 20 of 2008 on Micro, Small, and Medium Enterprises, MSME criteria are explained in each type of business, as follow:

1. The criteria of Micro Enterprises shall be as follows:
 - a. having maximum net assets of Rp.50,000,000.00 (fifty million Rupiah), exclusive of land and building of their place of business; or
 - b. having maximum annual sales proceeds of Rp.300,000,000.00 (three hundred million Rupiah).
2. The criteria of Small Enterprises shall be as follows:
 - a. having net assets of more than Rp.50,000,000.00 (fifty million Rupiah) up to a maximum amount of Rp.500,000,000.00 (five hundred million Rupiah), exclusive of land and building of their place of business; or

- b. having annual sales proceeds of more than Rp.300,000,000.00 (three hundred million Rupiah) up to a maximum amount of Rp.2,500,000,000.00 (two billion and five hundred million Rupiah).
 3. The criteria of Medium Enterprises shall be as follows:
 - a. having net assets of more than Rp.500,000,000.00 (five hundred million Rupiah) up to a maximum amount of Rp.10,000,000,000.00 (ten billion Rupiah), exclusive of land and building of their place of business; or
 - b. having maximum annual sales proceeds of more than Rp.2,500,000,000.00 (two billion and five hundred million Rupiah) up to a maximum amount of Rp.50,000,000,000.00 (fifty billion Rupiah).

The Role of Micro, Small and Medium Enterprises

According to the Central Statistics Agency (2019), MSMEs play a very significant role in the national economy, especially their contribution in generating employment while reducing unemployment and also becoming a value-added of GDP. A large number of MSMEs in Indonesia has given a positive impact. In 2017, the number of MSMEs non-agricultural enterprises in Indonesia had reached around 26 million businesses, or 98.68 percent of the total number of businesses in Indonesia.

In addition to creating business opportunities, MSMEs also create a not small value-added although not as big as their business. By a number that reaches 99 percent of all non-agricultural businesses in Indonesia, contribution of MSMEs in generating Indonesia's GDP reached more than 40 percent in 2013. The value added contribution of MSMEs is not as big as the amount. However, the potential contained in MSEs is quite large. Value-added development MSMEs in Indonesia continue to increase from year to year. During the 2009-2013 period, MSME GDP growth continued to increase from 3.87 percent to 6.02 percent.

Fincancial Literacy

The success of the MSME sector depends on the high level of financial literacy of MSME actors (Anshika, 2021). Financial literacy is defined in various ways, not exactly the same by financial experts. Lusardi and Mitchell (2014) state that financial literacy is knowledge of basic financial concepts and the ability to perform simple calculations. Orton (2007) explains that financial literacy is an integral part of a person's life because financial literacy is an important tool for making informed financial decisions. The World Bank has conceptualized financial literacy as a combination of consumer or investor understanding of

financial products, concepts and abilities, as well as their confidence to assess financial risks and opportunities in making choices by information, knowing where to go if they need help and taking other effective actions to improve their financial well-being (Kalekye and Memba, 2013).

In OJK regulation Number 76/POJK.07/2016 and in the Indonesian Financial Literacy National Strategy (Revisit 2017) improvement in the definition of financial literacy is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision-making and management in order to reach target. People with higher financial literacy will have more potential to provide higher productivity values (Soetino and Setiawan, 2018). This shows that financial literacy is a major contributor in improving financial wellbeing. From the above understanding, it can be concluded that financial literacy is defined as a skill or ability to understand financial conditions that are useful for making financial decisions so that it will affect the business being run and can improve welfare.

The Role of Financial Literacy in Small and Medium Enterprises

Financial literacy play a very important role in applying for credit at financial institutions, because of:

1. MSMEs that have a high literacy level will understand the importance of knowing various financing options which suit their needs and the mechanisms of profitable payment or loan repayment
2. MSMEs with a high literacy level can reduce market failures caused by information asymmetry between debtors and financial institutions
3. Financial literacy has an important role for MSMEs when making personal asset loans as collateral. Every MSME must consider the risks and benefits of their financial choices.

Financial Inclusion

Based on OJK Regulation Number 76/POJK.07/2016, financial inclusion is defined as the availability of access to various financial institutions, products and services in accordance with the needs and capabilities of the community in order to improve the welfare of the community. There is no standard for financial inclusion, besides OJK, various other institutions have tried to define it. CGAP-GPFI defines financial inclusion as 'countries where all working adults have effective access to credit, savings, payments and insurance services from formal service providers. The FATF explains that financial inclusion involves providing access to rural and undocumented people, who experience a lack of services or are excluded from the formal financial sector. The World Bank defines financial

inclusion as access for every person or business to be able to take advantage of financial products or services. This service plays an important role in being able to meet all human needs every day, such as payment transactions, savings, credit, and insurance that can be carried out effectively and sustainably.

Indicator of Financial Inclusion

To find out how far the development of financial inclusion activities is, a performance measure is needed. From several references, indicators that can be used as a measurement of a country in developing financial inclusion (Bank Indonesia, 2014) as follow:

1. Availability/access: measuring the ability to use formal financial services in terms of physical affordability and price
2. Usage: measuring the actual use of financial products and services (regularity, frequency, and usage duration)
3. Quality: measuring whether the attributes of financial products and services meet customer needs
4. Welfare: measuring the impact of financial services on the level of life of service users.

MSMEs Performances

Understanding The MSMEs Performances

According to Fahmi (2012) financial performance is an analysis to know how the company has implemented financial performance by using the rules of financial implementation properly and correctly. Financial performance is a description of the financial condition of a company that is analyzed with financial analysis tools so that it can be known the good and bad financial conditions of a company that reflects work performance in a certain period. Aribawa (2016) states that MSME performance is the result of work achieved by an individual and can be completed with the individual tasks within the company and in a certain period, and will see the value or standards of the company where the individual works.

MSME Performance Indicators

The performance of MSMEs in this study was analyzed using an approach based on the following assumptions:

1. Measuring the performance of MSMEs is often difficult to do directly

- quantitative, due to limited resources (financial understanding and labor)
2. Performance measurement generally looks at complex financial indicators, so it does not completely show the actual conditions that occur in the business
 3. Performance measurement is often used relatively appropriate only when it is used for large companies that are structured in the company management.

Based on these assumptions, the performance of MSMEs in this study was measured using several indicators (Munizu, 2010), including:

- a. Sales Growth
- b. Capital Growth
- c. Labor Growth
- d. Market Growth
- e. Profit growth

Hypothesis Development

Based on the problems that have been discussed previously, the hypotheses that can be formulated by researchers are as follows:

- H₁: Financial literacy affects the performance of MSMEs in Bangkalan Regency.
- H₂: Financial inclusion affects the performance of MSMEs in Bangkalan Regency
- H₃: Financial literacy and financial inclusion affect the performance of MSMEs in Bangkalan Regency

Research Methodology

This research was carried out by distributing questionnaires to Small and Medium Enterprises (MSMEs) in Bangkalan Regency.

In addition, the type of research used in this study is a quantitative research sourced from primary and secondary data. Quantitative research is research by examining how much influence the independent variable has on the dependent variable. Quantitative research methods are used to examine certain populations or samples, data collection using research instruments, quantitative or statistical data analysis with the aim of testing predetermined hypotheses. The primary data from this study was obtained from distributing questionnaires via google form directly to MSME owners in Bangkalan Regency. Dalam penelitian ini penulis menggunakan pengukuran yaitu skala *Likert*. The data collected from the results of the questionnaire distribution will be processed and analyzed with the aim of becoming information. The analytical model used is multiple linear regression

analysis which is processed using SPSS (Statistical Product and Service Solutions). Secondary data from this study were obtained from journals, articles, internet media, and books related to the topic of this research.

Variables and Operational Definitions

Financial Literacy

Financial literacy is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity (OJK, 2016). Based on Chen and Volpe (1998), financial literacy indicators are:

1. Basic knowledge of financial management
2. Credit management
3. Savings and investment management
4. Risk management

Financial Inclusion

Financial inclusion is the availability of access to various financial institutions, products and services in accordance with the needs and capabilities of the community in order to improve people's welfare (OJK, 2016). Financial inclusion indicators include:

1. Availability or access
2. Usage
3. Quality
4. Welfare

MSME Performance

The performance of MSMEs is an illustration of the financial condition of companies that are analyzed with financial analysis tools, so that they can know about the good and bad financial condition of a company that reflects work performance in a certain period (Fahmi, 2012). MSME performance indicators (Munizu, 2010) are:

1. Sales Growth
2. Capital Growth
3. Labor Growth
4. Market Growth
5. Profit Growth

Regression Model Equation

$$Y = \alpha + b_1X_1 + b_2X_2 + e$$

Information :

Y = dependent variable (SME Performance)

α = Constant Number

b_1 = Regression coefficient between financial literacy and performance

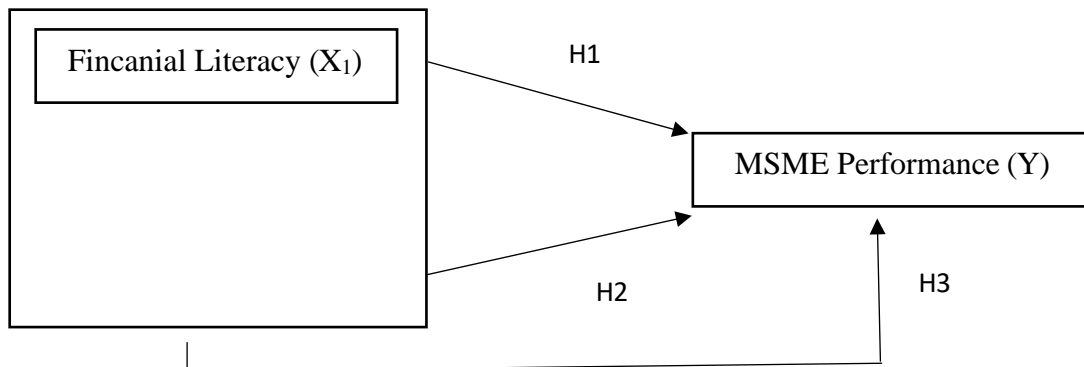
b_2 = Regression coefficient between financial inclusion and performance

X_1 = Independent variable (Financial Literacy)

X_2 = Independent variable (Financial Inclusion)

e = Error

Conceptual Framework



Population and Sample

The population used in this study is Micro, Small, and Medium Enterprises in the agricultural, mining and quarrying sectors, processing industries, electricity, gas, clean water, construction, trade, hotels, restaurants, communication transportation, finance leases, and services in Bangkalan Regency. . The total population in this study was 22,500 MSME owners spread across Bangkalan Regency.

In this study, the sample used was non-probability sampling technique. According to Sugiyono (2017:142) techniques non-probability sampling, namely the sampling technique does not provide equal opportunities or opportunities for each member element (population) to be selected as members of the sample. This technique is used because the population is too large and the researcher has limited time have. The author uses the technique of distributing questionnaires by convenience sampling. According to Asra (2015:77) convenience sampling is a sampling method that is carried out by simple, namely by taking the unit of observation found.

DOI :

ISSN :

Data Analysis Method

This study uses multiple linear regression data processing methods (multiple regression analysis) to determine the effect of the independent variable on the dependent variable. The dependent variable in this study is financial literacy and financial inclusion. The independent variable in this study is the performance of MSMEs.

In performing multiple linear regression analysis, the significance level chosen in this study is 0.05 (5%) because it is considered sufficient to represent the influence of the independent variables on the dependent variable. The significance level of 0.05 (5%) means that it is most likely that the conclusions drawn have a 95% probability or 5% error tolerance. To test the acceptance or rejection of a hypothesis, the F test and t test are carried out. The F test is used to test the relationship of the independent variable to the dependent variable simultaneously. While the t test is a statistical test used to test the relationship of the independent variable partially with the dependent variable. The decision-making criteria used in the t-test is if the probability $\alpha \geq 0.05$ means that H_0 is accepted and H_1 is rejected, in other words, the financial literacy and financial inclusion variables do not have a significant effect on the MSME performance variable partially. However, if the probability $\alpha < 0.05$, it means that H_0 is rejected and H_1 is accepted, in other words, financial literacy and financial inclusion have a significant effect on the MSME performance variable partially.

RESULTS AND DISCUSSION

Description of Study Results

In the description section of the research results, it is explained about the research data of MSMEs in Bangkalan Regency in 2022 related to the variables used, including financial literacy (X1), financial inclusion (X2), and MSME performance (Y). Descriptive analysis in this study includes minimum, maximum, mean, and standard deviation. Table 1.1. shows a descriptive analysis of the variables with each statement in the questionnaire.

Table 1.1. Description of Statistics

Indikator Variabel	Jumlah Observasi	Minimum	Maximum	Mean	SD
X1.1	40	3	4	3,38	0,490
X1.2	40	3	4	3,48	0,506
X1.3	40	3	4	3,58	0,501
X1.4	40	3	4	3,57	0,501
X1.5	40	2	4	2,80	0,648
X1.6	40	2	4	2,92	0,764
X1.7	40	2	4	2,92	0,764
X1.8	40	2	4	3,35	0,662

X1.9	40	3	4	3,57	0,501
X1.10	40	3	4	3,25	0,439
X1.11	40	3	4	3,35	0,483
X2.1	40	2	4	3,00	0,506
X2.2	40	3	4	3,38	0,490
X2.3	40	3	4	3,48	0,506
X2.4	40	3	4	3,13	0,335
X2.5	40	2	4	3,03	0,480
X2.6	40	3	4	3,35	0,483
X2.7	40	2	3	2,88	0,335
X2.8	40	3	4	3,25	0,439
X2.9	40	3	4	3,25	0,439
X2.10	40	1	4	2,78	0,832
X2.11	40	2	4	3,12	0,607
Y.1	40	2	4	3,15	0,580
Y.2	40	2	4	3,15	0,580
Y.3	40	2	4	3,15	0,580
Y.4	40	2	4	3,15	0,580
Y.5	40	2	4	3,03	0,480
Y.6	40	2	4	3,03	0,480
Y.7	40	2	4	2,93	0,764
Y.8	40	2	3	2,90	0,304
Y.9	40	2	4	3,28	0,640

Source: Data Analysed using SPSS 25

Model Analysis and Hypothesis Testing

The results of model analysis and hypothesis testing are presented in tables 1.2 and 1.3, as follows:

Tabel 1.2. Hasil Uji Statistik t

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-6.369	4.583		-1.390	.173		
	Total_X1	-.120	.245	-.112	-.489	.628	.205	4.881
	Total_X2	1.111	.291	.874	3.819	.000	.205	4.881

a. Dependent Variable: Total_Y

Source: Data Analysed using SPSS 25

Table 1.2 shows that the financial literacy variable (X1) has no effect on the performance of MSMEs (Y) with a significance level of $0.628 > 0.05$, so H1 is rejected. The financial inclusion variable (X2) has a significant positive effect on the performance of MSMEs (Y) with a significance level of $0.000 < 0.05$, so H2 is accepted.

The following are the results of the F statistical test which are presented in table 1.3, as follows:

Table 1.3. F . Statistical Test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	485.327	2	242.663	28.043	.000 ^b
	Residual	320.173	37	8.653		
	Total	805.500	39			
a. Dependent Variable: Total_Y						
b. Predictors: (Constant), Total_X2, Total_X1						

Source: Data Analysed using SPSS 25

Based on table 1.3 the results of the F statistical test show that the calculated F value is 28.043 with a significance of 0.000. The significance level is less than 0.05, so H3 is accepted, which means that financial literacy and financial inclusion simultaneously affect the performance of MSMEs.

The following are the results of the coefficient of determination R test which are presented in table 1.4, as follows:

Table 1.4. The Result of the Coefficient of Determination R

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.776 ^a	.603	.581	2.942	1.950
a. Predictors: (Constant), Total_X2, Total_X1					
b. Dependent Variable: Total_Y					

Source: Data Analysed using SPSS 25

Based on table 1.4 the test results of the coefficient of determination R shown from the value of R Square is 0.603 or 60.3%. This shows that the MSME performance variable can be explained by the financial literacy and financial

inclusion variables of 60.3%. While the remaining 39.7% is influenced by other variables not examined in this study. Based on table 1.4 the test results of the coefficient of determination R shown from the value of R Square is 0.603 or 60.3%. This shows that the MSME performance variable can be explained by the financial literacy and financial inclusion variables of 60.3%. While the remaining 39.7% is influenced by other variables not examined in this study.

Discussion

The Effect of Financial Literacy on MSME Performance

Based on the results of the analysis, it shows that financial literacy has no effect on the performance of MSMEs. This is because at the time the research was conducted, MSMEs in Bangkalan Regency were being affected by the Covid 19 pandemic, so the knowledge, behavior, and financial attitudes possessed by MSME actors could not significantly affect the improvement of MSME performance. The COVID-19 pandemic has weakened most of the performance of MSMEs, due to the existence of several rules related to physical distancing that are enforced which can reduce the number of customers significantly. However, it can be seen that financial literacy and financial inclusion together affect the performance of MSMEs, this shows that financial literacy supported by the availability of access to financial services will be able to affect the performance of MSMEs.

The Effect of Financial Inclusion on MSME Performance

Based on the regression results, financial inclusion variables as measured by indicators of availability or access, use, quality, and welfare of financial services have a significant positive effect on the performance of MSMEs. Financial inclusion can be relied on in encouraging behavior change in order to further improve the performance of MSMEs. The use of facilities from bank and non-bank financial institutions can help MSMEs succeed in competing in the global economy so that they can support inclusive and sustainable economic growth, as well as provide benefits for business actors who are still classified as unbanked. Therefore, after being affected by the pandemic, the government seeks to implement the National Economic Recovery (PEN) program. One of the targets of the PEN program is to mobilize MSMEs. The government has issued several policies, including loan interest subsidies, credit restructuring, providing working capital guarantees and tax incentives. This program is in line with the fact that financial inclusion affects the performance of MSMEs in Bangkalan Regency.

The results of this study are in line with research conducted by Pomeroy, R., et al. (2020) which examines financial inclusion to build economic resilience in small-scale businesses. The results of this study indicate that access to formal financial services, known as financial inclusion, can increase the financial resilience of small businesses. This study examines the barriers to financial inclusion of small-scale enterprises such as financial literacy and ability, lack of assets for collateral, geographical distance from financial institutions, and lack of formal identification. This study also discusses solutions to overcome these barriers with financial literacy, collecting financial data, understanding the condition of SMEs, and others, thus enabling SMEs to control their income and savings. The results of this study are also in line with the research of Zulkieflimansyah et al. (2020) who conducted research and showed the results that financial literacy had a significant effect on the financial performance of SMEs with financial inclusion as an intermediary variable.

Conclusion

Based on the results of the data analysis that has been obtained, the conclusions that can be drawn to answer the formulation of the problem are as follows:

1. After testing the hypothesis, the results obtained that financial literacy has no significant effect on MSMEs in Bangkalan Regency. This is because MSMEs in Bangkalan Regency are still affected by the COVID-19 pandemic.
2. The financial inclusion variable has a significant positive effect, this shows that the use of bank and non-bank financial institutions can help MSMEs succeed in being able to compete and restore the Indonesian economy, which had slumped due to the Covid 19 pandemic..
3. The results of the F test show that financial literacy and financial inclusion both affect the performance of MSMEs with an r-square value of 60.3%.

Based on the results of the study and the conclusions, the suggestions are:

1. MSME actors should pay attention to financial literacy and financial inclusion so that they can improve their business performance.
2. The government should be more aggressive in providing socialization related to financial literacy and financial inclusion for MSMEs, especially in Bangkalan Regency.
3. For further researchers, it is better to add the number of observations and independent research variables, so that the research results better describe the performance of MSMEs.

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ISSN :



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