
The Moderating Effect of Government Policy on the Relationship Between Financial Literacy and the Use of Financial Technology by MSMEs

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Abstract

Low financial literacy among MSMEs in Indonesia is a significant problem, as it hinders the adoption of financial technology (fintech) that could improve their efficiency and competitiveness. This study aims to analyze how government policies moderate the relationship between financial literacy and the use of financial technology by MSMEs. This research uses a qualitative approach with a literature study method. Data was collected from various secondary sources, including scientific journals, books, government reports, and other relevant publications. The research process involved identifying relevant literature, content analysis to understand the interaction between financial literacy, government policies, and fintech usage, and synthesis of findings to draw a comprehensive conclusion. The results show that financial literacy has a positive influence on the use of fintech by MSMEs. Government policies act as a significant moderating factor in the relationship between financial literacy and fintech usage. The conclusion of this study emphasizes the importance of government policies in improving financial literacy and encouraging the use of financial technology by MSMEs. It is suggested that the government should continue to develop and implement policies that support financial literacy and fintech adoption. In addition, collaboration between the government, financial institutions, and technology providers needs to be strengthened to create a conducive ecosystem for the growth of MSMEs.

Keywords: *government policy, financial literacy, fintech, MSMEs*

INTRODUCTION

In a business ecosystem that continues to develop, the importance of financial literacy for Micro, Small and Medium Enterprises (MSMEs) is becoming increasingly prominent. Financial literacy includes an understanding of basic financial concepts such as cash flow management, bookkeeping, and risk management, which are important skills for MSMEs entrepreneurs to manage their business finances well (Andhyka et al., 2022). However, amidst advances in financial technology (*fintech*), MSMEs are faced with new challenges and new

opportunities at the same time. *Fintech* has revolutionized the way MSMEs access and use financial services, opening the door to greater innovation and efficiency in managing business finances (Khasanah et al., 2022).

The development of *fintech* has provided financial solutions that are more affordable and easily accessible for MSMEs. Through digital platforms, MSMEs can quickly apply for loans, make payments and manage their finances more efficiently than before. However, to fully exploit the potential of *fintech*, MSMEs need to have a strong understanding of financial concepts. Good financial literacy plays an important role in ensuring that MSMEs can use *fintech* wisely and avoid possible risks. (Tay et al., 2022).

The main challenge faced by MSMEs in adopting *fintech* is the low level of financial literacy among them. Many MSMEs entrepreneurs still do not fully understand the benefits of *fintech* and how best to integrate it into their financial strategy. This can hinder their ability to optimize their use of *fintech* and improve their business' overall financial performance. This is where the role of government policy becomes very important. Policies that support financial literacy and adoption of *fintech* by MSMEs can help create a conducive environment for the growth of the MSME sector (Widyaningsih et al., 2021). Financial literacy training programs, incentives for the use of *fintech* services, and regulations that facilitate MSME access to *fintech* are some examples of policies that can help increase financial literacy and expand *fintech* adoption among MSMEs. However, implementation of this policy must also take into account the unique challenges and needs faced by MSMEs, especially those operating in remote areas or with limited access to technology. (Arbay & Nusantara, 2021). Therefore, there is a need for a holistic and integrated approach in designing policies that can support financial literacy and *fintech* adoption by MSMEs in various geographic and economic contexts. Apart from that, collaboration between the government, financial institutions, the private sector and non-profit organizations is also important in supporting financial literacy and the adoption of *fintech* by MSMEs. Through strong partnerships, various parties can complement each other and strengthen their efforts in increasing financial literacy among MSMEs and expanding their access to *fintech* services.

Thus, this article aims to dig deeper into the importance of financial literacy for MSMEs in adopting *fintech*, as well as to analyze the important role of government policy and cross-sector collaboration in supporting financial literacy and the adoption of financial technology by MSMEs. Through a better understanding of these complex dynamics, it is hoped that more effective strategies can be identified to strengthen the MSME sector through *fintech* integration and increasing financial literacy.

METHOD

The research method used is qualitative research with the type of literature study, which was chosen because of its complexity and the need to understand in depth the relationship between financial literacy, adoption of financial technology by MSMEs, and the role of government policy in supporting these two aspects. The reason for choosing this title is based on the importance of MSMEs in the economy

and the challenges they face in accessing modern financial services, as well as the need for effective policies to overcome financial literacy problems. Primary sources of information will include academic literature, scientific journals, books, research reports and related policy documents. Data analysis was carried out by examining patterns, trends and main findings from the literature collected, as well as identifying knowledge gaps and policy implications that can be implemented to increase financial literacy and adoption of financial technology by MSMEs.

The research process begins by formulating research questions that are specific and relevant to the topic being studied. Next, a comprehensive literature search was carried out through various academic sources such as scientific journals, books, and so on. After collecting relevant literature, each source is critically evaluated to ensure its quality, validity, and relevance to the research. Data analysis stages include data reduction, data display, and verification. Data reduction is carried out by sorting information obtained from the literature to find main themes and eliminating irrelevant information. Data display involves compiling and presenting data in a systematic form, such as tables or diagrams, to facilitate analysis and interpretation. Verification is carried out by confirming the findings that have been compiled, ensuring the consistency and validity of the conclusions drawn. This process helps in identifying patterns, relationships and gaps in the existing literature, as well as how government policies can moderate the relationship between financial literacy and the use of financial technology by MSMEs.

RESULTS AND DISCUSSION

The research results cover various important aspects, including the Importance of Financial Literacy for MSMEs, the Benefits and Challenges of Fintech for MSMEs, Policies that Encourage the Adoption of Financial Technology, the Relationship between Financial Literacy and the Use of Fintech by MSMEs, and the Moderating Role of Government Policy.

The major proposition that can be drawn from the literature is that financial literacy has a crucial role in optimizing the use of financial technology by MSMEs. Good financial literacy enables MSMEs to understand and utilize fintech services effectively, which in turn can improve their operational efficiency and competitiveness. Research also shows that fintech offers various benefits to MSMEs, including easier access to financing, lower transaction costs and better financial management. However, MSMEs also face challenges in adopting fintech, such as a lack of understanding of the technology and limitations of digital infrastructure.

The minor proposition that emerges is that government policy can act as a significant moderating factor in the relationship between financial literacy and the use of financial technology by MSMEs. Supportive policies, such as providing financial literacy training, incentives for technology adoption, and improving digital infrastructure, can strengthen the positive impact of financial literacy on fintech adoption. On the other hand, less supportive policies or strict regulations can hinder this development.

However, there are several gaps identified from this literature study. *First*, although many studies have examined the relationship between financial literacy and fintech adoption, few have examined in depth how government policy specifically moderates this relationship; *Second*, there are limitations in research that covers various geographic and economic contexts, resulting in a lack of generalization of findings for various types of MSMEs in various regions. *Third*, most studies still focus on the benefits of fintech without comprehensively exploring the challenges faced by MSMEs, especially in developing countries.

By identifying these major and minor propositions and gaps, this research provides a clear direction for further research to explore the moderating role of government policies in strengthening the relationship between financial literacy and the use of financial technology by MSMEs, as well as addressing the challenges faced in fintech adoption.

The Importance of Financial Literacy for MSMEs

Financial literacy is the ability of an individual or business to understand and use various financial concepts, tools and skills well. These abilities include understanding how to manage money effectively, understanding financial products, making wise financial decisions, and long-term financial planning (Hermawan et al., 2022). Financial literacy helps individuals or businesses to manage financial risks, take advantage of investment opportunities, and better plan their financial future. The importance of financial literacy for Micro, Small and Medium Enterprises (MSMEs) cannot be denied. MSMEs often face unique challenges in managing their finances due to limited resources and access to information. With good financial literacy, MSME entrepreneurs can make smarter and more informed financial decisions, manage risks better, and plan sustainable business growth. This can help them to strengthen business sustainability and increase their contribution to the local and national economy.

In practice, financial literacy gives MSMEs the ability to manage their financial resources efficiently. They can better manage cash flow, identify and reduce unnecessary costs, and allocate funds to various operational and investment needs. Thus, financial literacy helps MSMEs to remain liquid and competitive in a competitive market. Financial literacy allows MSMEs to create budgets that are realistic and can be monitored regularly. With a good budget, MSMEs can control their expenses, prioritize the use of funds, and identify savings opportunities. According to researchers, there are several reasons behind the importance of understanding financial literacy for MSMEs, including: *first*, debt management also becomes more effective with good financial literacy. MSMEs that understand the types of loans available, the terms and risks involved, and how to manage debt payments will be better able to manage their debt burden well. This helps them to avoid excessive debt and set up a sustainable financial structure for the business (Lestari et al., 2022).

Second, financial literacy has an impact on the ability of MSMEs to access external financing (Mohite & Chourasiya, 2023). MSMEs with good financial literacy are more likely to be trusted by financial institutions and potential investors

because they can present accurate and transparent financial reports. This opens the door to easier access to capital and financing, which in turn can support business growth; *third*, financial literacy helps MSMEs to plan long-term finances. With a good understanding of concepts such as investment, retirement and risk management, MSMEs can develop sustainable financial strategies for the future of their business. This helps them to face challenges and opportunities more prepared, and ensures long-term business sustainability (Islam et al., 2022).

Fourth, financial literacy plays a role in increasing transparency and accountability of MSMEs. With a good understanding of accounting principles and financial reporting, MSMEs can prepare accurate and transparent financial reports. This not only helps in internal management but also builds trust with external stakeholders such as investors, lenders and business partners. This trust is critical to gaining financial support and partnerships that can help a business grow. Even though financial literacy is important for MSMEs, in reality MSMEs face many challenges in improving financial literacy. Many MSMEs do not have access to financial education resources or feel that this topic is too complex. Therefore, greater efforts are needed from the government, financial institutions and the business community to increase financial literacy among MSMEs. Practical educational programs, use of simple language, and support from mentors or financial consultants can help overcome these barriers and make financial literacy more accessible to MSMEs (Valle et al., 2022).

Benefits and Challenges of Fintech for MSMEs

Financial technology, or better known as *fintech*, refers to a variety of technological innovations used in the financial industry to provide financial services that are more efficient, faster and easier to access. *Fintech* encompasses a wide range of platforms and applications that leverage technologies such as artificial intelligence, data analytics and blockchain technology to change the way people interact with finance, from payments to investing and lending (Arisyahidin et al., 2024). The definition of *fintech* is not just limited to a specific product or service, but also includes a growing ecosystem of technology companies, financial institutions, and regulators working together to create innovation in the financial industry.

The importance of *fintech* in the transformation of the modern financial industry is significant. *Fintech* has enabled the creation of more inclusive financial services, allowing individuals and businesses from all walks of life to access financial products and services more easily, regardless of geographic location or economic background. It breaks down some of the traditional barriers to financial access, such as geographic distance, transaction costs, and lack of financial infrastructure. For example, digital payment services such as e-wallets and instant money transfers allow individuals to make transactions quickly and cost-effectively, even without a formal bank account. (Sthembiso Msomi & Nzama, 2022).

However, to fully understand the definition of *fintech*, it is important to note that fintech not only involves the use of technology in the provision of financial

services, but also involves cultural transformation. An example of this is the emergence of application-based financial services and digital platforms, which demands changes in the way banks and traditional financial institutions operate. to remain competitive and meet the needs of increasingly digital customers (Martini et al., 2022). The significant impact of *fintech* in terms of financial inclusion. By leveraging technology such as mobile phones and the internet, *fintech* has opened the door for millions of people who previously did not have access to formal financial services to engage in the digital economy. This is especially important in developing countries where many individuals and businesses still do not have access to banks or traditional financial institutions. *Fintech* allows them to carry out financial transactions, save money and access other financial services easily, even using simple devices such as smartphones.

Fintech can be a trigger for significant economic growth through funding innovation and developing new products. *Fintech* startups have become a source of new innovation in the financial industry, creating more efficient, cheaper and more accessible solutions to various financial problems. They often leverage new technologies such as artificial intelligence and blockchain to overcome challenges inherent in traditional financial systems, such as excessive bureaucracy, high fees and lack of transparency.

However, as with every technological innovation, *fintech* also brings a number of challenges and risks. One of the main challenges is the issue of data security and privacy, especially in terms of handling sensitive financial information and protecting against cybercrime. What's more, *fintech* adoption can also result in greater digital inequality if not everyone has equal access to technology or lacks the skills to use it effectively. Apart from that, there are also regulatory risks that must be considered, because *fintech* developments can exceed the capacity of existing financial regulations. Regulators must adapt quickly to address new challenges arising from *fintech* innovation, while ensuring that consumer protection and financial system stability are maintained. This creates a need for close cooperation between the private and public sectors in developing a regulatory framework that is balanced and responsive to *fintech* developments.

The benefits of *fintech* for Micro, Small and Medium Enterprises (MSMEs) are very significant in this digital era. One of the main benefits is easier and faster access to financial services. Through the *fintech* platform, MSMEs can carry out financial transactions such as payments, fund transfers and cash flow management more efficiently and cost-effectively. This is very helpful for MSMEs which often have limited access to traditional financial services such as banks, especially in remote areas or areas with limited financial infrastructure. Apart from that, *fintech* also provides MSMEs with access to more flexible and easily accessible financing solutions. Through *fintech* platforms, MSMEs can apply for loans online without having to visit a bank branch or go through a complicated bureaucratic process. This allows MSMEs to obtain additional funds for working capital, business expansion, or product development without having to wait long or face strict requirements as is often the case with traditional bank loans. However, despite the challenges, the benefits of *fintech* for MSMEs still far outweigh the risks. By

overcoming these challenges through the right approach, MSMEs can harness the full potential of *fintech* to improve operational efficiency, expand access to finance, and create greater growth opportunities. Therefore, it is important for MSMEs to understand the benefits and challenges of *fintech*, and develop appropriate strategies to integrate this technology into their business operations.

Policies that Encourage the Adoption of Financial Technology

Policies that encourage the adoption of financial technology (*fintech*) are becoming increasingly important in facing rapid changes in the world of finance. The following are some of the policies implemented, including: (Affandi et al., 2020): *first*, regulations that support innovation and growth of the fintech industry. Progressive and adaptive regulation can create a conducive environment for the development of *fintech*, allowing new companies to enter the market more easily and expanding the scope of financial services. This is important because many *fintech* innovations face complex regulatory challenges, such as data security, consumer protection and legal compliance issues that differ across jurisdictions.

Second, policies that encourage financial inclusion can expand fintech access to people who have not been served by the conventional financial system. For example, the government can provide incentives or subsidies for the development of technological infrastructure in remote areas or areas with limited financial access. These programs could include providing cheaper internet access, digital skills training, or subsidies for technology devices such as smartphones (Pellegrino & Abe, 2022). In this way, more people, including MSMEs, can access *fintech* services and take advantage of their benefits in increasing financial inclusion; *Third*, implementing cooperation between the government, financial institutions and the private sector can also help encourage fintech adoption. For example, the government could form partnerships with *fintech* companies to develop innovative solutions to existing financial problems, such as providing microloan services or working capital financing for MSMEs. This kind of cooperation can create a *win-win situation* where MSMEs get access to better financial services while fintech companies get access to a larger market (Pu et al., 2021).

Fourth, public education and awareness about fintech is also important in encouraging the adoption of this technology. Governments can provide financial education programs that include training on the use of *fintech* services, their benefits, and the associated risks. This can be done through public campaigns, seminars, or special training programs for MSMEs and other individuals interested in *fintech*. By increasing public understanding and awareness of *fintech*, more people will be willing to try these services and utilize them in their daily lives; *fifth*, supporting innovation and research in financial technology is also important in accelerating fintech adoption. The government can provide grant funds or fiscal incentives to *fintech* startups or research institutions involved in developing new technology. This can help create an environment that supports innovation and accelerate the development of new solutions that can improve financial services for everyone.

Governments also need to pay attention to the social and economic implications of *fintech* adoption, including the potential for job replacement by automation and digitalization technologies. In developing policies, governments need to consider ways to mitigate these negative impacts, such as by providing new skills training to affected workers or creating support programs for affected sectors (Sahdan & Sardju, 2024). Policies that encourage *fintech* adoption can provide major benefits to society and the economy as a whole. However, to achieve the full potential of *fintech*, cooperation between governments, the private sector, and civil society is needed to develop appropriate regulatory frameworks, increase financial inclusion, improve public education and awareness, and support innovation and research in financial technology. (Nugraha et al., 2022). Thus, *fintech* can be a powerful tool in accelerating economic development and improving the welfare of society as a whole.

The Relationship between Financial Literacy and the Use of *Fintech* by MSMEs

Financial literacy refers to an individual's or business's understanding and skills in managing finances, including understanding basic concepts such as budget management, investment planning, and financial risk management. On the other hand, the use of *fintech* by MSMEs refers to the use of various technological platforms and applications in their financial activities, such as digital payments, online loans, or investment via digital platforms. The importance of financial literacy for MSMEs in the context of using *fintech* is very significant (Diptyana et al., 2022). MSMEs that have a high level of financial literacy tend to be better able to understand the benefits and risks associated with using *fintech*, and are better able to utilize *fintech* services more effectively to improve their financial performance. With a strong understanding of basic financial concepts, MSMEs can make smarter investment decisions, better manage financial risks, and optimize the use of *fintech* services to support business growth (Liu et al., 2022).

However, on the other hand, low levels of financial literacy can be an obstacle for MSMEs in adopting *fintech*. MSMEs that do not understand financial concepts may not be aware of the potential benefits of *fintech* or may not even know how to use *fintech* services effectively (Permata Gusti et al., 2020). This can lead to low levels of *fintech* adoption among MSMEs, even though there are various services available that can help increase business efficiency and productivity. Apart from that, low levels of financial literacy can also increase the risk of irresponsible use of *fintech*. MSMEs that do not understand financial concepts may be vulnerable to fraud or detrimental financial practices when using *fintech* services, such as high-interest loans or high-risk investments (Riyanto Tri Wijaya & Herwiyanti, 2023). Therefore, it is important for MSMEs to have a strong understanding of sound financial principles and use *fintech* carefully to avoid falling into detrimental financial traps.

Furthermore, financial literacy can also influence MSMEs' perceptions and attitudes towards *fintech*. MSMEs that have a high level of financial literacy tend to be more optimistic and open to adopting financial technology, while MSMEs

that are less financially literate may be more skeptical or even afraid to try *fintech*. (Lontchi et al., 2023). Therefore, comprehensive financial education and training can help increase MSMEs' awareness and acceptance of *fintech*, opening the door for more MSMEs to harness the potential of *fintech* in supporting business growth (Parmitasari et al., 2023). However, it needs to be acknowledged that financial literacy is not the only factor influencing the use of *fintech* by MSMEs. Other factors such as available technological infrastructure, financial regulations, and market conditions also play an important role in determining the level of *fintech* adoption by MSMEs. Therefore, it is important to consider various aspects in developing strategies to increase the use of *fintech* by MSMEs, including financial education, infrastructure support, and a conducive regulatory framework.

The Moderating Role of Government Policy

The moderating role of government policy is a crucial aspect in the context of the relationship between financial literacy and the use of financial technology by Micro, Small and Medium Enterprises (MSMEs). The government plays an important role in creating a conducive environment for the development and adoption of *fintech* by MSMEs. There are several moderating roles of government policy, including: *first*, developing a regulatory framework that is balanced and supports innovation. Clear and progressive regulations can provide legal certainty to *fintech* industry players and reduce uncertainty, thereby encouraging investment and growth in the *fintech* sector; *second*, providing incentives or stimulus for the development of financial technology infrastructure needed to support the adoption of *fintech* by MSMEs. For example, governments can provide subsidies or fiscal incentives for technology companies or financial institutions that invest in infrastructure developments such as faster internet access, better data security, or more efficient payment platforms. In this way, the government can accelerate the adoption of *fintech* by MSMEs and encourage inclusive economic growth (Seraj et al., 2022).

Third, provide education and training on financial literacy and the use of *fintech* to MSMEs. These educational programs may include training on basic financial concepts, the benefits of using *fintech*, the risks involved, and how to use *fintech* services wisely (Adil, 2023). By increasing the understanding and skills of MSMEs in managing finances and utilizing *fintech*, the government can help increase the productivity and competitiveness of MSMEs in an increasingly digital global market; *fourth*, providing financial support and access to capital to MSMEs to adopt *fintech*. For example, the government can provide subsidies or low-interest loans to MSMEs that want to use *fintech* services to improve their operational efficiency or develop new products. (Cowling et al., 2020). The government can help overcome the financial obstacles often faced by MSMEs in adopting new technology and encourage the growth of the MSME sector as a whole.

Fifth, facilitate cooperation between MSMEs and *fintech* service providers. For example, the government could hold forums or networking events that allow MSMEs to meet *fintech* companies and learn more about the services they offer (Angreyani et al., 2023). In this way, the government can help strengthen the local

fintech ecosystem and facilitate the exchange of information and experience between MSMEs and *fintech* service providers; sixth, overcoming cross-border regulatory challenges that are often faced by MSMEs in using *fintech* services in various countries or regions (Sabar, 2023). For example, governments can play a role in developing harmonized regulatory frameworks or cross-border cooperation agreements to facilitate cross-border transactions and increase trust in cross-border *fintech* services. However, even though it has an important role, the government also needs to pay attention to the risks and challenges in developing policies to support the adoption of *fintech* by MSMEs. One of the key challenges is in developing a balanced regulatory framework that creates a conducive environment for *fintech* innovation while ensuring adequate consumer protection. Governments also need to pay attention to the social and economic implications of *fintech* adoption, including the potential for job replacement by automation and digitalization technologies (Angeles, 2022).

Thus, the moderating role of government policy in supporting the adoption of *fintech* by MSMEs is very important in encouraging inclusive and sustainable economic growth. Through the development of a balanced regulatory framework, financial education and training, financial support, and facilitating cooperation between MSMEs and *fintech* service providers, the government can help create a conducive environment for the development of *fintech* and sustainable growth of MSMEs.

CONCLUSION

Financial literacy plays a crucial role in the use of financial technology by Micro, Small and Medium Enterprises (MSMEs). This research reveals that MSMEs that have a high level of financial literacy tend to be able to utilize *fintech* more effectively, while MSMEs that lack financial literacy may experience obstacles in adopting *fintech*. Apart from that, this research also shows that the moderating role of government policy is very important in creating a conducive environment for the adoption of *fintech* by MSMEs. The contribution of this research lies in a better understanding of the relationship between financial literacy and the use of *fintech* by MSMEs, as well as the importance of the moderating role of government policy in supporting *fintech* adoption. These findings can be the basis for developing more effective policies in supporting MSMEs in adopting financial technology and increasing financial inclusion at the local, national and global levels. However, it is also important to note several limitations of this study. One is the limited data available, which can affect the depth of analysis and generalization of findings. Additionally, this research may be limited to the specific context investigated and cannot fully cover the full range of factors influencing *fintech* adoption by MSMEs worldwide. Therefore, further research with broader coverage and more complete data can help deepen understanding of the relationship between financial literacy, the use of *fintech* by MSMEs, and the moderating role of government policy.

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