

THE INFLUENCE OF FINANCIAL INCLUSION ON MSMEs PERFORMANCE IN BADUNG REGENCY

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Abstract: *This study aims to identify the effect of financial inclusion on the performance of Micro, Small and Medium Enterprises (MSMEs) in Badung Regency. In this study, data was collected from 100 respondents who are owners or stakeholders of MSMEs in the region. Survey methods with questionnaires were used to collect data, and descriptive statistical analysis and regression were carried out to analyze the relationship between financial inclusion variables and MSME performance. The results showed that financial inclusion has a significant positive influence on the performance of MSMEs in Badung Regency. Easier access to financial services, such as banking, credit, and insurance, provides MSMEs with opportunities to increase working capital, production, and business capacity. In addition, financial inclusion programs also contribute to the reduction of financial risk and the improvement of managerial skills, which support the growth and sustainability of MSMEs. This research implies that the implementation of financial inclusion policies can be a key factor in improving the economic welfare of MSMEs in Badung Regency. Therefore, continuous efforts are needed from the government, financial institutions, and related parties to strengthen adequate financial support and infrastructure, as well as involve MSMEs in training programs to maximize the benefits of financial inclusion in supporting the growth of the MSME sector in Badung Regency.*

Keyword: *Badung, business performance financial inclusion, MSMEs*

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) in Badung Regency have a significant role in driving the local economy and creating jobs (Zahrah & Wijaya, 2019). MSMEs in Badung Regency cover a number of diverse sectors, such as tourism, handicrafts, culinary, agriculture, and trade. This diversity creates a strong economic foundation and is resistant to changing market conditions. As a leading tourist destination in Bali (Sadguna et al., 2023; Wahyundari et al., 2015), MSMEs in Badung are very involved in the tourism sector. Small entrepreneurs often run stalls, gift shops, or culinary ventures that support the tourist experience. MSMEs in Badung Regency are known for their unique local products and handicrafts (Ruastiti, 2010).

The performance of Micro, Small and Medium Enterprises (MSMEs) in Badung Regency is reflected in various aspects, including economic growth, social impact, and contribution to sustainability (Adriani & Wiksuana, 2018). MSMEs in Badung Regency contribute significantly to local economic growth. MSMEs are the main pillar in moving the wheels of the regional economy. The performance of MSMEs is measured through the impact of empowerment on local communities (Wahyuni et al., 2018). MSMEs provide employment opportunities, support local skills, and increase the capacity of locals to be actively involved in economic activities.

The performance of MSMEs is also influenced by government support and training programs (Mawuntu & Aotama, 2022). This program helps MSMEs improve their management, marketing, and operational skills, thereby increasing their

competitiveness in the market. MSMEs that integrate the concept of sustainability in their operations show positive performance. This includes environmentally friendly practices, the use of local raw materials, and efforts to reduce ecological impacts (Haris & Purnomo, 2016).

Financial inclusion plays an important role in improving the business performance of Micro, Small and Medium Enterprises (MSMEs) in Badung Regency. Financial inclusion opens easier access to financial services for MSMEs. With the existence of supporting financial institutions, MSMEs can more easily obtain loans, open bank accounts, and access other financial services. Financial inclusion provides access to MSMEs to get the funding needed for business development. Affordable loans and various other financial instruments can be used to expand operations, increase production capacity, or even innovate products (Budiarto et al., 2018).

Through financial inclusion, MSMEs can expand access to markets (Steelyana, 2013; Susilawati & Puryandani, 2020). The funds obtained can be used to improve product quality, follow food safety standards, or develop more effective marketing strategies. With effective financial inclusion, MSMEs in Badung Regency can overcome several financial constraints that may be faced, strengthen their business performance, and contribute more to local economic growth. Policy measures and continued support from authorities can increase the positive impact of financial inclusion on MSMEs in the region (Fajri et al., 2021; Saputro et al., 2022; Wulandari, 2019).

Although financial inclusion has many benefits, there are several negative impacts that can affect efforts to improve the performance of Micro, Small and Medium Enterprises (MSMEs) in Badung Regency. One of the negative impacts of financial inclusion is the potential for MSMEs to experience excessive debt. Although loans can support growth, unwise use of funds or without good planning can lead to debt burdens that are difficult to overcome.

Financial inclusion can carry high risks related to interest rates and financing costs. MSMEs that lack understanding of cost structures and high interest rates can become entangled in burdensome payment obligations, reduce profits, and hinder growth. MSMEs that rely too heavily on financial institutions for financing can become vulnerable to fluctuations in market conditions and banking policies. This over-dependence can make MSMEs less financially independent. Financial inclusion can cause difficulties for MSMEs in understanding complex financial products and services. MSME owners who lack financial literacy may find it difficult to choose products that suit their needs (Alfin, 2021).

Financial inclusion that is not balanced with adequate financial literacy can cause MSMEs to take on debt with high interest rates (Djawahir, 2018; Pida & Imsar, 2022). This can impose a heavy financial burden and reduce the profitability of MSMEs. MSMEs newly engaged in financial inclusion may face higher financial risks. Changes in interest rates or exchange rate fluctuations can cause financial instability, which can hurt MSMEs. Therefore, it is important to include supporting measures such as financial education, coaching, and adequate infrastructure in the implementation of financial inclusion to minimize its negative impact and increase its benefits for MSMEs in Badung Regency.

Financial inclusion affects the performance of MSMEs. Therefore, this research is very important to analyze the effect of financial inclusion on MSME performance. The hypothesis of this study is that financial inclusion has a positive and significant effect on the performance of MSMEs in Badung Regency.

METHOD

This study used quantitative methods. The sample used was 100 MSME actors in Badung Regency as respondents. The data collected for the study were first-hand data collected from participants. In this study, questionnaires were used to collect data using survey methodology. In this study, three months were issued. Software called Smart PLS is used to process and analyze data.

RESULT

1. Construct Validity Test

a. Outer Loading

The convergent validity test based on outer loading is presented in Table 1 and shows that all indicators have an outer loading above 0.7 on the intended construct.

Table 1: Outer Loading

	X	Y
X1	0,896	
X2	0,93	
X3	0,868	
Y1		0,956
Y2		0,854
Y3		0,911

b. Fornell-Larcker Criterion

The Fornell-Larcker Criterion evaluation or AVE root values used in the discriminant validity test are shown in Table 2. The concept is legitimate if the AVE root (number when written diagonally) exceeds the correlation between constructions.

Table 2: Fornell-Larcker Criterion

	X	Y
X	0,807	
Y	0,872	0,895

c. Cross Loadings

If the correlation of the construct indicator is larger than the correlation of the indicator with other constructs, the construct is said to have strong discriminant validity. The maximum cross loading value for each indicator against its latent variable is shown in Table 3. This demonstrates that all indicators pass the cross loadings test's criteria for discriminant validity. In other words, all signs are valid.

Table 3: Cross Loadings

	X	Y
X1	0,903	0,892
X2	0,611	0,458
X3	0,875	0,738
Y1	0,895	0,956
Y2	0,737	0,854
Y3	0,741	0,911

2. Construct Reliability Test

The study model's Cronbach's alpha values from Table 4 indicate that every variable has a Cronbach's alpha value over 0.70. These findings indicate that the research model has met Cronbach's alpha requirements, making the study credible. Each variable in the research model has a composite reliability value above 0.70, according to the composite reliability value. These results confirm that all constructs are reliable and the research model has reached composite reliability.

Table 4: Construct Reliability and Validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
X	0,737	0,845	0,651
Y	0,875	0,923	0,801

Hypothesis Testing

As shown in Table 5, the Path Coefficient and P-value results can be used to evaluate the direct impact of one construct on another by the proposed link. The P-value is 0.000, indicating the significance of the association between X and Y.

Table 5: Path Coefficients

	Original Sample	T Statistics	P-Values
X -> Y	0,872	21,454	0,000

DISCUSSION

Results from tests for validity and reliability are accurate and reliable. The results of hypothesis testing show that the performance of MSMEs is significantly and positively influenced by financial inclusion. This research shows how the role of financial inclusion that is done well can improve the performance of MSMEs in Badung Regency. Financial inclusion can have a number of positive impacts on MSMEs (Micro, Small and Medium Enterprises) in Badung Regency. Financial inclusion allows MSMEs to more easily access financial products and services, such as bank accounts, credit, and insurance. This provides financial flexibility and opens up new opportunities for business growth.

MSMEs involved in financial inclusion can gain easier access to working capital. This helps them to better manage and develop their business, including to buy raw materials, increase production, and expand markets. Access to affordable insurance products can help MSMEs protect themselves from financial risks, such as losses due to natural disasters or market changes. This helps maintain business continuity.

With access to financial resources, MSMEs can invest in technology and employee training. This can increase business productivity and competitiveness at the local and national levels. Financial inclusion programs are often accompanied by training and mentoring. This helps MSMEs in capacity building and improvement of managerial expertise, so that they can be more effective in running business operations.

Financial inclusion can help reduce economic disparities by providing opportunities for MSMEs to participate in the formal economy. This can create a more even distribution of income in society. Through financial inclusion, there can be development of local financial infrastructure, such as improving ATM networks, bank offices, and other financial services. This has a positive impact on local economic growth.

By having access to financing, MSMEs can be more free to innovate and develop new products or services. This can encourage the growth of the creative economy sector in Badung Regency. It is important to note that the implementation of effective financial

inclusion must also be accompanied by a sustainable approach, training, and institutional support to ensure that this positive impact can be maximally felt by MSMEs in Badung Regency.

MSMEs in Badung Regency have clearly felt the positive impact of the financial inclusion program. Many MSMEs in Badung Regency who previously had difficulty accessing financial services can now open bank accounts, apply for credit, and obtain insurance more easily. This broadens their access to working capital and financial services that support business growth. MSMEs that get easier access to capital are also able to increase their production and business capacity. With sufficient capital, they can develop operations, expand the range of products or services, and better meet market demand.

Financial inclusion programs are often accompanied by training and mentoring for MSME owners. The impact is seen in improving management skills, implementing better business practices, and increasing the ability to manage business finances. MSMEs that have engaged in financial inclusion can better protect themselves from financial risks, such as natural disasters or market fluctuations. This provides better resilience to economic and environmental challenges.

The impact of financial inclusion is not only felt by individual MSMEs, but can also contribute to local economic growth in Badung Regency. Increasing the economic activity of MSMEs can create jobs, increase community income, and stimulate the local economic sector as a whole. By experiencing it firsthand in business operations and growth, MSMEs in Badung Regency can be clear evidence that financial inclusion has a significant role in improving their economic welfare and business sustainability.

CONCLUSION

Financial inclusion has a significant impact on the performance of MSMEs (Micro, Small and Medium Enterprises) in Badung Regency. The financial inclusion program has brought a number of tangible positive changes for MSMEs in various aspects of business and economy. These impacts include increased access to finance, production growth, capacity building, reduced financial risk, and more active participation in the formal economy. In addition, MSMEs involved in financial inclusion also experience improved managerial skills, contributions to local economic growth, and improved welfare for their owners.

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