

Financial Literacy and Loan Terms Affect Msme Formal Credit Access

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Abstract

The rapid increase in Micro, Small and Medium Enterprises (MSMEs) in Indonesia is able to encourage economic growth. The existence of government policies on financing Micro, Small and Medium Enterprises (MSMEs) motivates Micro, Small and Medium Enterprises (MSMEs) entrepreneurs to be able to create a good financing system so as to affect the ease of accessing credit. Ease of access to formal credit is important because formal credit providers have more availability of funds than informal credit providers. Access to formal credit carried out on Micro, Small and Medium Enterprises (MSMEs) is also based on the banking behavior of Micro, Small and Medium Enterprises (MSMEs) entrepreneurs who are influenced by financial literacy. Various efforts made by the Office of Cooperatives and MSMEs of Sleman Regency, Yogyakarta Special Region, Indonesia in improving financial literacy include providing financial training that is analyzed for effectiveness in research. This study aims to determine the effect of financial literacy and credit requirements on access to formal credit by Micro, Small and Medium Enterprises (UMKM) in Sleman Regency, Yogyakarta Special Region, Indonesia. The method used in this study is a regression test. The results of this study show that financial literacy and credit requirements can affect access to formal credit by Micro, Small and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region.

Keywords

access to formal credit; Micro, Small and Medium Enterprises (MSMEs); credit terms



I. Introduction

Micro, Small and Medium Enterprises (MSMEs) have a very important role in economic growth in the Republic of Indonesia. This economic growth is driven by the increasing availability of jobs by Micro, Small, and Medium Enterprises (MSMEs) so as to reduce the unemployment rate which is quite high in the Republic of Indonesia. In addition, Micro, Small, and Medium Enterprises (MSMEs) have been made one of the economic development agendas in Indonesia. Micro, Small, and Medium Enterprises (MSMEs) contributed to the Gross Domestic Product (GDP) of 61.07 percent or idr 8,573 trillion.

The increasing number of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, Micro, Small, and Medium Enterprises (MSMEs) is inseparable from financing problems. The problems faced by Micro, Small, and Medium Enterprises (MSMEs) are not only related to financial management and human resources in them, but also related to financing. Despite modest progress in some countries, the post-colonial state has been unable

to establish rights-based political and economic systems of governance that would facilitate consolidation of state-building and promote economic development (Monga, 2019). Particularly, whether inflation is necessary or harmful form economic growth constitutes the basis of the matter in question (Eden in Wollie, 2018).

In order to improve the ease of financing for Micro, Small, and Medium Enterprises (MSMEs) entrepreneurs, the government is expanding the financing facilities for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia with a formal credit program called the People's Business Credit (KUR). KUR aims to facilitate the capital of Micro, Small, and Medium Enterprises (MSMEs) entrepreneurs, but has not been fully realized evenly. The lack of formal credit distribution felt by Micro, Small, and Medium Enterprises (MSMEs) entrepreneurs is driven by limited access to formal credit itself. One of the things that affects access to credit by small businesses is the credit requirements offered by formal credit providers. These credit terms include credit repayment terms, guarantees, and interest rates. Micro, Small, and Medium Enterprises (MSMEs) entrepreneurs feel hesitant in accessing credit when they do not understand why a guarantee should be a formal loan requirement. Meanwhile, formal credit providers prefer borrowers who can provide collateral. The low distribution of credit by formal credit distributors is because formal credit lending institutions feel that they have to be careful in providing formal credit because formal credit dealers cannot know the true condition of Micro, Small, and Medium Enterprises (MSMEs) which can actually be explained through the financial statements of Micro, Small, and Medium Enterprises (MSMEs) (Rudiantoro & Siregar, 2012).

The statement is not in accordance with the condition of Micro, Small, and Medium Enterprises (MSMEs) that the majority of Micro, Small, and Medium Enterprises (MSMEs) entrepreneurs are less able to provide accounting information in explaining their business conditions. The existence of financial reports by Micro, Small, and Medium Enterprises (MSMEs) is difficult for Micro, Small, and Medium Enterprises (MSMEs) (Rudianto & Siregar, 2014). This is due to the lack of financial literacy of Micro, Small, and Medium Enterprises (MSMEs) owners which includes the ability and knowledge of Micro, Small, and Medium Enterprises (MSMEs) in recording finances and managing debt (Lusimbo & Muturi, 2015) so as to reduce the opportunity for Micro, Small, and Medium Enterprises (MSMEs) in obtaining credit at formal credit provider institutions. Financial literacy is very important because the financial literacy of owners of Micro, Small, and Medium Enterprises (MSMEs) influences financial decisions and better financial management for Micro, Small, and Medium Enterprises (MSMEs). The lack of financial literacy will pose more challenges, particularly for debt management, savings and credit, and future planning. (S. Cole et al., 2009) found that higher financial literacy was significantly associated with greater use of financial services, and that financial literacy greatly influenced banking behavior. That a person who has financial knowledge from different sources can increase the chances of successfully obtaining credit. Credit restrictions for an already developing company are no greater than for a growing company given the maturity of the company.

Based on the explanation above, researchers want to examine the effect of financial literacy and credit requirements on formal credit access for Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region. Research on credit access has been conducted by several researchers such as Nindy (2021), Oktavianti & Hakim (2017), Salen et al. (2022), Tinggi & Amm (2021), Aminda et al. (2022), Ahmedova (2015), Adomako et al. (2016), Nindy (2021), Setyawan Agus et al. (2015), Angilella & Mazzù (2015).

II. Review of Literature

2.1 Theory of Capital Structure

Capital struktur is a comparison between debt and own capital (Putu et al., 2022). Capital structure is important in a company because the capital structure reflects the company's financial position (Maulida & Arfinto, 2011).

The capital structure of Micro, Small, and Medium Enterprises (MSMEs) is very important because many small businesses fail due to negligence in determining the capital structure and financial leverage of these small businesses. Research focusing on capital structure in focusing on capital structure in focusing on capital structure in Micro, Small, and Medium Enterprises (MSMEs) has not been done much. The capital structure of small businesses becomes very important because many small businesses fail due to negligence in determining the capital structure and *financial leverage* of these small businesses. Small business owners follow the pecking order theory in meeting their business funding needs as well as paying attention to market conditions and their personal preferences in funding decisions (R. Cole et al., 2019). The point is that small business owners finance their own capital at the *start-up* stage and also pay attention to market conditions, but the selection of capital will be in accordance with the personal preferences of small business owners. On the pecking *order* theory constructed by, it is stated that in financing its business, the company's first source of funding is to use internal funding sources then then use funding sources from debt or other external funding. Based on *pecking order* theory, the source of funding desired by the company is first the company's retained earnings, debt, and then the issuance of new equity.

External funding sources are important because if a company only gets capital from the company's internal funding, then the company's growth is tidak as fast as the company's ethics using external funding sources (Madestam, 2014).

2.2 Credit

According to (*UU No. 10 Tahun 1998 Tentang Perubahan Atas Undang-Undang Nomor 7 Tahun 1992 Tentang Perbankan [JDIH BPK RI]*, n.d.), loan is a money or bill that can be equated with it, based on an agreement or loan agreement between the bank and another party that obliges the borrower to pay off the debt after a certain period of time with the provision of interest. In credit activities, there are elements in it, which are interrelated, namely:

a. Times

A person who is going to borrow money will pay attention to the term of repayment of the loan that he got. The longer the repayment period will please the potential borrower. On the contrary, the shorter the repayment period will make the prospective borrower rethink, whether to keep borrowing or change another place.

b. Belief

The bank or place that will provide the loan must be sure and trust that the borrower will be able to return the loan. If the creditor no longer has confidence in the prospective borrower, then it will obviously have problems in the future.

c. Submission

The delivery of loan money has 2 (two) ways, namely in cash or by transfer between bank accounts. If the loan amount is large, then the borrower will be happier if it is transferred between bank accounts to avoid various kinds of unwanted things. On the other hand, if the loan is made in a not large amount, it can be in the form of cash or transfers between bank accounts.

d. Risks

The creditor must understand very well about the borrower's record, this is to minimize the risks that will arise in the future. Prospective borrowers who have a negative value will be shunned by creditors, because they have great risks. Meanwhile, prospective borrowers whose record is good, will be happy for the creditor to provide a loan.

e. Agreement/Covenant

To avoid risks in the future, there must be an employment agreement between the creditor and the borrower. In this agreement it will be mentioned what are the rights and obligations between the 1st party of the creditor and the 2nd party of the borrower. Both parties must agree on the contents of the agreement and sign with a stamp, so as to have the force if in the future there is a deviation either intentional or not between the creditor and the borrower. In the agreement is also written about how to resolve if there is a dispute.

These five elements are present in every credit activity and are interrelated. For example, when a Micro, Small, and Medium Enterprise (MSME) will apply for credit and be approved, the lender will provide credit with the consent of both parties. When it comes to providing credit, formal credit provider institutions certainly provide trust and hand over economic value to these Micro, Small, and Medium Enterprises (MSMEs). On the other hand, there are risk factors that may occur when providing credit or repaying credit. Micro, Small, and Medium Enterprises (MSMEs) must also repay the loan in accordance with the agreement or time that has been agreed.

2.3 Credit Access

The growth of credit access by Micro, Small, and Medium Enterprises (MSMEs) can increase economic growth. In addition to being beneficial for the state to stabilize the economy, credit is also beneficial for Micro, Small, and Medium Enterprises (MSMEs) as a safe and sustainable source of funding. All commercial banks include Micro, Small, and Medium Enterprises (MSMEs) in their credit schemes to develop access to formal credit. Access to formal credit is that there are no obstacles related to administrative costs or procedures at formal credit provider institutions that are felt by Micro, Small, and Medium Enterprises (MSMEs) when applying for credit. The dimensions used in explaining the variable access to formal credit are the frequency of Micro, Small, and Medium Enterprises (MSMEs) accessing credit in formal credit provider institutions and the nominal credit that has been successfully borrowed by Micro, Small, and Medium Enterprises (MSMEs) (Oktavianti Venny, 2017).

2.4 Credit Terms

Credit requirements are a standard set by a credit provider that must be met by the debtor where these requirements are used to determine or determine the ability of the debtor to repay his credit. In terms of the credit terms used to assess creditworthiness, credit terms are used to assess the creditworthiness of the debtor as well as collateral for credit risk that is impossible for the debtor to pay. The dimensions used to measure the credit period are the collateral value, the credit repayment term and the interest rate (Oktavianti Venny, 2017).

In order to be able to carry out credit with lancer, formal credit provider institutions apply the principle of crediting known as the 5C principle, namely:

1. Character

In providing credit, the creditor pays attention to the character of the prospective debtor. The purpose of the credit provider institution is to find out the character of the prospective debtor so that the creditor knows how the *debtor's track record* is and knows the extent of honesty and willingness of the prospective debtor to fulfill his obligations

2. Capacity

Capacity is defined as an assessment made by creditors before giving credit to debtors. The assessment assesses the ability of prospective debtors to pay off their credit obligations, for example by looking at the form of business activities carried out by conducting surveys to the debtor's place of business.

3. Capital

The definition of capital is how much capital or personal funds are owned by prospective debtors. This tends to be contrary to the function of creditors as fund providers, but prospective debtors who have a large enough personal capital will certainly run their business seriously.

4. Collateral

Collaterals are goods that are used as collateral and handed over by prospective debtors to creditors as collateral for the credit received by Micro, Small, and Medium Enterprises (MSMEs)

5. Condition of economy

Condition of economy is political, economic, social, cultural and others that affect the economic state of a business that obtains credit.

2.5 Financial Literacy

Developing countries, such as Indonesia, tend to have unstable economic systems. When there is a financial crisis, access to credit or costs in developing countries will be higher. This is the reason why financial literacy is very important, especially for Micro, Small, and Medium Enterprises (MSMEs) as equirements are a standard set by the credit provider institution that must be met by the debtor where the requirement is used to determine or find out the debtor's ability to pay the credit back. From the point of view of the credit terms are used to assess the creditworthiness of the credit, the credit terms are used to assess the creditworthiness of the creditor to the debtor as well as the guarantee of credit risk that may not be paid by the debtorequirements are a standard set by the credit provider institution that must be met by the debtor where the requirement is used to determine or find out the debtor's ability to pay the credit back. Financial literacy helps Micro, Small, and Medium Enterprises (MSMEs) to prepare them for difficult financial times by reducing risks such as collecting savings, diversifying assets and buying insurance.

Financial literacy is financial knowledge and the application of that financial knowledge in everyday life (Houston, 2010). According to Survei Nasional Literasi dan Inklusi Keuangan (SNLIK) by Otoritas Jasa Keuangan (OJK) in 2019 it showed the financial literacy index reached 38.03% which was previously in 2016 at 29.7% (Paramitalaksmi et al., 2022). Financial literacy and financial knowledge are important assets in a company, especially small businesses. Financial literacy is not only measured by how a person has

information about finances but how he can apply them appropriately. The dimensions used to measure financial literacy are debt literacy and recording of debt. (Oktavianti & Hakim, 2017)

In addition, to the theoretical basis and results of previous research mentioned above, this study aims to find out:

1. Does financial literacy affect access to formal credit for Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region?
2. Whether credit requirements affect formal credit access for Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region?

III. Research Method

The type of data used in this study is primary data, namely the questionnaire result data collected. The population in this study is Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region in 2022. Sampling using purposive sampling with the following criteria:

- a. Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region in 2022
- b. Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region that make formal loans at the Bank in 2022
- c. Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region which has a type of business provider in the accommodation and food and drink sector in 2022

To determine the number of samples using the Slovin formula as follows:

$$n = \frac{N}{(1 + Ne^2)}$$

Information:

n = number of research samples

N = Total population

e = Error or leeway of inaccuracy due to error, we use 10%

The following is data on Micro, Small, and Medium Enterprises (MSMEs) contained in Sleman Regency, Yogyakarta Special Region, as shown in Table 1. Next:

Table 1. Recap Data of Micro, Small, and Medium Enterprises (UMKM) Business Sector Per Kapanewon in Sleman Regency, Yogyakarta Special Region

No	Business Sector	Kapanewon																
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Agriculture, fishing and fisheries	161	216	309	374	498	318	307	318	363	339	144	230	248	138	418	639	174
2	Mining and excavation	0	1	3	10	6	5	3	3	4	9	6	0	0	0	0	2	2
3	Processing	1165	474	433	629	515	811	769	590	509	403	265	834	418	430	570	399	354

	industry																	
4	Procurement of electricity, gas	5	16	28	25	10	26	27	22	20	18	6	14	24	8	9	4	18
5	Water supply, waste management, waste and recycling	6	17	14	13	12	6	7	18	13	12	0	5	16	10	6	6	5
6	Construction	9	22	34	12	14	12	100	17	14	30	4	6	26	16	4	14	10
7	Wholesale and retail trade, repair of cars and motorcycles	861	1752	2407	2293	1163	1432	1684	1929	1592	1671	833	972	2041	1156	974	1458	1355
8	Transportasi dan pergudangan	27	28	15	52	23	19	20	56	57	29	38	24	75	28	15	18	22
9	Provision of accommodation and meals	1177	1200	1666	1490	678	1419	1248	1606	1799	1305	451	922	2042	655	672	2195	825
10	Information and communication	11	12	27	33	16	12	12	21	26	15	9	12	50	12	6	23	28
	Total	3914	5458	8209	6582	3746	5291	7065	6344	7187	5268	2241	4091	9179	4236	2786	4839	3523

Description of Kapanewon:

1. Moyudan
2. Gamping
3. Sleman
4. Tempel
5. Turi
6. Sayegan
7. Godean
8. Mlati
9. Kalasan
10. Ngemplak
11. Cangkringan
12. Minggir

13. Depok
14. Berbah
15. Prambanan
16. Ngaglik
17. Pakem

The number of Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region included in the accommodation and food and beverage sector providers is 21,350 Micro, Small, and Medium Enterprises (MSMEs). Based on this data, the number of samples that we will take is as follows:

$$n = \frac{N}{(1 + Ne^2)} = \frac{21.350}{(1 + (21.350 \times 10\%)^2)} = 99 = 100$$

Data collection using questionnaires, both sent directly to Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region, or those using online. Meanwhile, the statistical tool used in this study is a regression test. There are several questionnaire questions as in Table 2 as follows:

Table 2. Research Questionnaire

Loan Terms	
No	Questionnaire questions
1.	My business is able to meet the requirements of interest rates charged by financial institutions
2.	The interest rate paid at all times of paying the loan is fixed
3.	My business is to use loan according to my real purpose when applying for loan
4.	period of return of loan given to my business is appropriate
5.	My efforts get rewards/incentives from financial institutions when the amount of loan increases
6.	The term of loan repayment depends on the amount of loan
7.	The guarantee required by the financial institution is appropriate
8.	My business has a guarantee that can be used to obtain loan
9.	The existence of assets that can be used as collateral helps the growth of my business
10.	efforts get greater loan When the collateral offered increases
Access to Formal Loan	
No	Questionnaire questions
1.	I can easily get loan from a formal financial institution for my venture
2.	My business often gets loan according to the amount needed
3.	My business has enough information about the availability of loan for this type of business
4.	My business can access loan whenever I need
5.	Loan regulations at financial institutions influence my business decision to access loan
6.	The need for guarantees limits my efforts to loan in financial institutions
7.	to loan helped my business grow
8.	The relationship between my business and financial institutions is important in accessing loan
9.	frequency of accessing loan helped my business grow
10.	amount of my business loan is always increasing

IV. Discussion

Not all Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region have loans or loans to banks for their business. From the questionnaires distributed, there are 100 that can be further processed, and become research data. In Sleman Regency, Istemwa Yogyakarta Region consists of 17 Kapanewon. However, Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region that have successfully filled out the questionnaire that has been distributed throughout 2022 for this study only came from 11 Kapanewon, while the 11 Kapanewon are as follows:

Table 3. Origin of Micro, Small, and Medium Enterprises (MSMEs) and Returning Questionnaires

No	Kapanewon	Total
1.	Mlati	6
2.	Depok	18
3.	Gamping	18
4.	Tempel	6
5.	Turi	4
6.	Godean	10
7.	Berbah	10
8.	Pakem	6
9.	Cangkringan	6
10.	Moyudan	10
11.	Sayegan	6
Jumlah		100

Sumber: processed data

Table 4. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.089	3.826		1.591	.119
	Loan Terms	.806	.091	.804	8.862	.000

a. Dependent Variable: Formal Loan Access

Source: processed data

From table 4. It can be seen that:

1. Financial literacy affects formal access to credit. This can be seen from the smaller significant value of the alpha, namely the significance of $0.039 < 0.05$. From the questionnaire filled out, it can be seen that Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region can compile financial reports, analyze financial statements, and can find out current debts. By obtaining financial literacy, Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region also have debt management capabilities, knowing about the impact of inflation and interest rates on their debt.
2. Credit terms affect formal credit access. This can be seen from the significant value that is smaller than the alpha, which is a significance of $0.00 < 0.05$. From the questionnaire filled out, it can be seen that Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region apply for credit at banks and are used in accordance with the original purpose, namely to grow their business not for

other purposes. In the credit, there is a guarantee that must be prepared by Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region, and according to Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, the Yogyakarta Special Region is appropriate, not burdensome and can help its business growth. From the loans obtained by Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region, it turns out that there are still Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region that do not understand the interest rates applied in loans, whether fixed or fluctuated. This is a finding for banks that will provide loans so that at the beginning they explain the interest rate on the loan applied, whether it is fixed or fluctuations follow the loan balance.

V. Conclusion

5.1 Conclusion

1. Financial literacy affects access to formal credit for Micro, Small, and Medium Enterprises (MSMEs) in Sleman Regency, Yogyakarta Special Region.
2. Credit requirements affect access to formal credit for Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region.

5.2 Limitations

1. Not all Micro, Small, and Medium Enterprises (MSMEs) entrepreneurs in Sleman Regency, Yogyakarta Special Region are willing to fill out the questionnaire distributed for this research without any monetary reward for them.
2. Not all Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region can have access to formal lending at the Bank.

5.3 Suggestion

1. It is necessary to provide clear information for Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region before making any loans, both formal and informal, such as about fixed interest or decreasing interest. As well as the importance of access to formal credit which tends to be safer than informal credit.
2. Banks / parties that provide loan funds in order to provide clear and more detailed information to entrepreneurs of Micro, Small, and Medium Enterprises (MSMEs) located in Sleman Regency, Yogyakarta Special Region

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