

GOVERNMENT POLICY SUPPORT AND MSME DEVELOPMENT: EVIDENCE FROM SUBANG CITY, WEST JAVA, INDONESIA**Rizky Ilhami¹, Muhammad Pauji Ramadhan²**¹Universitas Padjadjaran²Universitas Muhamadiyah Bandung

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(m.fedryasnyah@unpad.ac.id)**ABSTRACT**

Financial literacy plays an important role in improving financial decision-making and financial management practices among business owners, particularly Micro, Small, and Medium Enterprises (MSMEs). Many MSMEs face challenges in managing their financial resources due to limited financial knowledge and inadequate financial management practices. This study aims to analyze the impact of financial literacy on financial management practices among MSMEs in Subang. The research employs a quantitative approach using primary data collected through structured questionnaires distributed to MSME owners. The collected data were analyzed using descriptive statistics and regression analysis to examine the relationship between financial literacy and financial management practices. The results indicate that financial literacy has a positive and significant influence on financial management practices among MSME owners. MSME owners with higher financial literacy tend to implement better financial practices such as budgeting, record-keeping, and cash flow management. However, the study also finds that many MSME owners still have limited knowledge regarding advanced financial planning and financial risk management. Therefore, improving financial literacy through financial education programs and training is essential to strengthen financial management capabilities and support the sustainability of MSMEs. The findings of this study provide useful insights for policymakers and financial institutions in designing programs that promote financial literacy and support MSME development.

Keywords: Financial Literacy; Financial Management Practices; MSMEs; Small Business Management; Indonesia.

ABSTRAK

Literasi keuangan berperan penting dalam meningkatkan pengambilan keputusan keuangan dan praktik pengelolaan keuangan di kalangan pemilik usaha, khususnya Usaha Mikro, Kecil, dan Menengah (UMKM). Banyak UMKM menghadapi tantangan dalam mengelola sumber daya keuangannya karena keterbatasan pengetahuan keuangan dan praktik pengelolaan keuangan yang tidak memadai. Penelitian ini bertujuan untuk menganalisis dampak literasi keuangan terhadap praktik pengelolaan keuangan di kalangan UMKM di Subang. Penelitian ini menggunakan pendekatan kuantitatif menggunakan data primer yang dikumpulkan melalui kuesioner terstruktur yang didistribusikan kepada pemilik UMKM. Data yang dikumpulkan dianalisis menggunakan statistik deskriptif dan analisis regresi untuk mengkaji hubungan antara literasi keuangan dan praktik pengelolaan keuangan. Hasil penelitian menunjukkan bahwa literasi keuangan memiliki pengaruh positif dan signifikan terhadap praktik pengelolaan keuangan di kalangan pemilik UMKM. Pemilik UMKM dengan literasi keuangan yang lebih tinggi cenderung menerapkan praktik keuangan yang lebih baik seperti penganggaran, pencatatan, dan manajemen arus kas. Namun, penelitian ini juga menemukan bahwa banyak pemilik UMKM yang masih memiliki pengetahuan terbatas mengenai perencanaan keuangan lanjutan dan manajemen risiko keuangan. Oleh karena itu, peningkatan literasi keuangan melalui program edukasi dan pelatihan keuangan sangat penting untuk memperkuat kemampuan pengelolaan keuangan dan mendukung keberlanjutan UMKM. Temuan penelitian ini memberikan wawasan yang bermanfaat bagi pembuat kebijakan dan lembaga keuangan dalam merancang program yang mempromosikan literasi keuangan dan mendukung pengembangan UMKM.

Kata Kunci : Literasi Keuangan; Praktik Manajemen Keuangan; UMKM; Manajemen Bisnis Kecil; Indonesia.

A. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in supporting economic development, employment creation, and poverty reduction in many developing countries. As key drivers of grassroots economic activity, MSMEs contribute significantly to income generation, local business development, and the diversification

of economic opportunities. In Indonesia, MSMEs represent one of the most important pillars of the national economy, as they not only provide employment opportunities but also support the resilience of the economic system, particularly during periods of economic uncertainty. According to the Ministry of Cooperatives and SMEs of the Republic of Indonesia, MSMEs account for more than 60% of the national Gross Domestic Product (GDP) and absorb a large proportion of the workforce. This significant contribution highlights the importance of strengthening MSME sustainability and improving their managerial capabilities in order to maintain economic stability and promote inclusive economic growth across different regions.

Despite their significant contribution to the national economy, many MSMEs still face various challenges in managing their financial resources effectively. Limited access to financial education, inadequate managerial skills, and insufficient knowledge of financial planning often create barriers that hinder the growth and sustainability of small businesses. One of the major issues encountered by MSME owners is limited financial knowledge and inadequate financial management practices. Poor financial planning, lack of proper bookkeeping, and limited understanding of financial products and financial services often prevent MSMEs from managing their finances efficiently and accessing external financing opportunities (Lusardi & Mitchell, 2020). These challenges indicate that financial literacy is an important factor that can influence financial decision-making and the overall performance of MSMEs.

Financial literacy refers to an individual's ability to understand financial concepts, manage financial resources effectively, and make informed financial decisions regarding saving, borrowing, investing, and financial planning. Individuals with higher financial literacy tend to demonstrate better financial behavior, including budgeting, saving regularly, and making strategic financial decisions that support long-term financial stability (OECD, 2021). Financial literacy also plays an important role in improving individuals' ability to evaluate financial risks and opportunities, which is essential in both personal and business financial management. In the context of MSMEs, financial literacy is particularly important because business owners are responsible for managing both personal and business finances simultaneously. Without adequate financial knowledge, MSME owners may face difficulties in separating business finances from personal finances, which can negatively affect business sustainability.

Previous studies have shown that financial literacy positively influences financial management practices among small business owners. Entrepreneurs with adequate financial knowledge are more capable of maintaining financial records, managing cash flow, controlling operational costs, and planning business investments effectively (Bongomin et al., 2020). Proper financial management practices allow MSMEs to monitor their financial performance, identify potential financial risks, and make better strategic decisions for business development. As a result, improved financial literacy can enhance business sustainability, increase financial resilience, and support long-term growth for MSMEs.

In the context of Indonesia, the level of financial literacy among MSME owners remains relatively uneven, particularly at the local level. Although various financial education programs have been introduced by government institutions and financial authorities, many MSME owners still have limited access to structured financial literacy training. In regional economic areas such as Subang, MSMEs continue to grow rapidly across various sectors including trade, services, agriculture, and small-scale manufacturing industries. These businesses play an important role in supporting local economic development and providing employment opportunities for local communities. However, many MSME owners still face difficulties in implementing proper financial management practices due to limited financial knowledge, lack of bookkeeping practices, and insufficient understanding of financial planning and financial services.

Therefore, understanding the relationship between financial literacy and financial management practices among MSME owners is essential to support the sustainability and development of small businesses. Improving financial literacy can help MSME owners make better financial decisions, manage their business finances more effectively, and strengthen their ability to cope with financial challenges. This study aims to analyze the impact of financial literacy on financial management practices among MSMEs in Subang, West Java, Indonesia. By examining how financial knowledge influences financial behavior and financial management practices among MSME owners, this research seeks to provide a deeper understanding of the role of financial literacy in supporting business sustainability. The findings of this research are expected to provide valuable insights for policymakers, financial institutions, and business development programs in designing effective financial education initiatives that support the growth, resilience, and long-term sustainability of MSMEs.

B. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Financial Literacy

Financial literacy refers to an individual's ability to understand financial concepts and apply this knowledge to make effective financial decisions. It includes knowledge related to financial planning, budgeting, saving, investment, and risk management. According to the Organisation for Economic Co-operation and Development (OECD, 2021), financial literacy is defined as a combination of financial awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions and ultimately achieve financial well-being.

For business owners, particularly those managing Micro, Small, and Medium Enterprises (MSMEs), financial literacy plays a crucial role in managing business finances effectively. Entrepreneurs with adequate financial knowledge are better equipped to evaluate financial opportunities, manage risks, and maintain the financial stability of their businesses (Lusardi & Mitchell, 2020). Financial literacy also enables business owners to utilize financial services such as credit facilities, savings instruments, and investment products that support business growth.

Previous studies have found that higher levels of financial literacy are associated with better financial decision-making and improved business performance. MSME owners who understand financial principles tend to maintain proper financial records, monitor cash flows, and plan business expenditures more carefully (Bongomin et al., 2020).

Financial Management Practices

Financial management practices refer to the activities undertaken by business owners to plan, organize, control, and monitor financial resources within their businesses. These practices include budgeting, record-keeping, cash flow management, financial reporting, and investment planning.

Effective financial management practices are essential for ensuring the sustainability and growth of MSMEs. According to Eugene F. Brigham, sound financial management enables organizations to allocate resources efficiently, minimize financial risks, and maximize profitability (Brigham & Ehrhardt, 2020). For small businesses, proper financial management is particularly important because limited resources must be managed carefully to avoid operational disruptions.

However, many MSMEs face challenges in implementing proper financial management practices. These challenges often arise due to limited financial knowledge, lack of financial training, and insufficient access to financial information. As a result, many small business owners rely on informal financial management methods that may not support long-term business sustainability (Fatoki, 2021).

Financial Literacy and MSME Financial Management

Financial literacy is widely recognized as a key factor influencing financial management practices among entrepreneurs. MSME owners with strong financial literacy are more capable of managing their financial resources efficiently, maintaining accurate financial records, and making strategic financial decisions that support business development.

Research indicates that financial literacy significantly affects financial behavior and financial management practices in small businesses. Entrepreneurs with higher financial literacy levels tend to demonstrate better financial discipline, including proper budgeting, saving for future investments, and managing debts responsibly (OECD, 2021).

Furthermore, financial literacy also improves access to formal financial institutions such as banks and microfinance institutions. Business owners who understand financial systems are more confident in utilizing financial services that support business expansion and sustainability (Lusardi & Mitchell, 2020).

C. RESEARCH METHODOLOGY

This study employs a quantitative research approach to analyze the impact of financial literacy on financial management practices among Micro, Small, and Medium Enterprises (MSMEs) in Subang. A quantitative approach is used because it allows the researcher to measure the relationship between variables and examine the influence of financial literacy on financial management practices among MSME owners.

The population of this study consists of MSME owners operating in various sectors such as trade, services, and small-scale manufacturing in Subang, West Java. Due to the large number of MSMEs in the region, a purposive sampling technique is used to select respondents who meet specific criteria, namely MSME owners who actively manage their business operations and financial activities. The sample size consists of MSME owners who are considered representative of the MSME sector in the research area.

Data for this research are collected through primary data using structured questionnaires distributed directly to MSME owners. The questionnaire is designed to measure two main variables: financial literacy and financial

management practices. Financial literacy indicators include knowledge of financial concepts, budgeting, savings, credit management, and financial planning. Meanwhile, financial management practices are measured through indicators such as financial record-keeping, cash flow management, budgeting practices, and financial decision-making within the business.

The collected data are analyzed using statistical analysis techniques to examine the relationship between variables. Descriptive statistics are first used to describe the characteristics of respondents and the general condition of financial literacy among MSME owners. Subsequently, simple linear regression analysis is conducted to determine the extent to which financial literacy influences financial management practices among MSMEs. The results of the analysis are then interpreted to explain the relationship between financial literacy and financial management behavior among MSME owners in Subang.

D. RESULT AND DISCUSSION

Characteristics of Respondents

The respondents in this study consist of MSME owners operating in various business sectors in Subang, West Java. These businesses represent different types of economic activities that contribute to the development of the local economy. Based on the collected data, most respondents operate in the trade and retail sector, which includes businesses such as small shops, food stalls, and other local trading activities. This sector is followed by the service sector, which includes businesses such as repair services, beauty services, and other community-based service providers. A smaller proportion of respondents are engaged in small-scale manufacturing businesses, which involve the production of locally manufactured goods such as food products, handicrafts, and other small industrial products. The distribution of respondents across these sectors reflects the diversity of MSME activities in the Subang region and highlights the important role of small businesses in supporting local economic development.

In terms of business experience, the majority of respondents have been managing their businesses for more than three years. This indicates that many MSME owners have accumulated practical experience in operating their businesses, interacting with customers, managing daily operations, and handling financial transactions related to their business activities. Such experience is important because it allows business owners to develop a better understanding of market conditions and operational challenges. However, practical business experience does not always guarantee effective financial management practices, particularly if business owners lack sufficient financial knowledge or training.

Regarding educational background, the respondents demonstrate varying levels of formal education ranging from secondary education to higher education. Some respondents have completed only basic or secondary education, while others have attained diploma or university-level qualifications. Although education can influence an individual's ability to understand financial concepts, many MSME owners still rely primarily on informal knowledge and practical experience when managing their business finances. In many cases, financial decisions are based on intuition or day-to-day experience rather than systematic financial planning.

Furthermore, the findings reveal that many MSME owners have not received formal training in financial management or financial literacy programs. The lack of structured financial education may limit their ability to perform important financial management activities such as maintaining proper bookkeeping records, planning business budgets, managing cash flow, and evaluating financial performance. As a result, some MSME owners may face difficulties in separating personal finances from business finances, which can create challenges in maintaining financial stability within their businesses.

This condition highlights the importance of financial literacy in supporting better financial management practices among MSME owners. Improving financial knowledge and financial management skills can help business owners make more informed financial decisions, maintain better financial records, and manage business resources more efficiently. Therefore, strengthening financial literacy among MSME owners is an important step in improving the sustainability and long-term growth of small businesses, particularly in local economic areas such as Subang.

Level of Financial Literacy among MSME Owners

The results of the descriptive analysis indicate that the level of financial literacy among MSME owners in Subang is generally at a moderate level. Most respondents demonstrate a basic understanding of fundamental financial concepts such as saving, budgeting, and managing daily business expenses. These basic financial skills allow business owners to manage routine financial transactions and maintain short-term operational activities. However, the analysis also reveals that more advanced financial knowledge remains relatively limited among many

respondents. Concepts related to financial planning, investment decision-making, financial risk management, and long-term financial strategy are not yet widely understood by a significant portion of MSME owners.

The findings also indicate that many MSME owners rely heavily on practical business experience when managing their finances. Rather than applying structured financial management techniques, financial decisions are often made based on intuition, personal experience, or informal advice from peers and family members. While practical experience can help business owners navigate day-to-day financial operations, the absence of systematic financial planning may limit their ability to anticipate financial risks and manage business growth effectively.

Furthermore, several respondents reported that they still combine personal finances with business finances. This practice is relatively common among small business owners, particularly in micro and family-based enterprises. However, the lack of clear separation between personal and business finances may reduce the effectiveness of financial control and financial planning within the business. Without proper financial records and financial separation, it becomes difficult for business owners to accurately evaluate business performance, monitor profitability, and plan future financial strategies.

These findings suggest that improving financial literacy among MSME owners could contribute significantly to better financial management practices and more sustainable business operations. By enhancing financial knowledge and financial management skills, MSME owners may become better equipped to manage cash flow, maintain proper financial records, and make more strategic financial decisions. Strengthening financial literacy can therefore play an important role in supporting the long-term development, resilience, and competitiveness of MSMEs, particularly in regional economic areas such as Subang.

Financial Management Practices among MSMEs

Financial management practices among MSMEs in Subang vary depending on the experience, financial knowledge, and managerial capabilities of business owners. The results of the study indicate that some MSME owners have implemented basic financial management practices in their business operations. These practices include recording daily income and expenses, preparing simple budgets to manage operational costs, and monitoring cash flows to ensure that business activities can continue smoothly. Such basic financial practices play an important role in helping MSME owners maintain financial stability and manage routine business transactions effectively.

Despite these positive practices, the study also reveals that a number of MSMEs still rely on informal financial management methods. In many cases, business owners maintain financial records manually using simple notebooks or rely primarily on memory rather than structured financial documentation. While these informal methods may be sufficient for very small-scale businesses, they often lack the accuracy and consistency required for effective financial management. Without proper financial records and systematic documentation, it becomes difficult for business owners to track financial performance, analyze profitability, and monitor business growth over time.

The lack of structured financial management practices may also create challenges in managing cash flow and planning future business development. For example, MSME owners who do not maintain detailed financial records may find it difficult to determine whether their business operations generate consistent profits or experience financial losses. In addition, inadequate financial documentation may limit the ability of MSMEs to access external financing from financial institutions, which typically require financial statements or financial records when evaluating loan applications.

Effective financial management practices are essential for MSME sustainability because they enable business owners to evaluate financial performance, manage operational costs, and make informed business decisions. By maintaining accurate financial records and implementing systematic financial planning, MSME owners can better control their financial resources and respond more effectively to financial challenges. Therefore, strengthening financial management practices is an important step in improving the resilience and long-term sustainability of MSMEs, particularly in growing local economies such as Subang.

The Impact of Financial Literacy on Financial Management Practices

The regression analysis results indicate that financial literacy has a positive and statistically significant influence on financial management practices among MSME owners in Subang. This finding suggests that higher levels of financial literacy are associated with better financial management behavior among business owners. In other words, MSME owners who possess stronger financial knowledge and understanding tend to apply more systematic and structured financial management practices in their business operations. The positive relationship between these variables indicates that financial literacy plays an important role in shaping how business owners manage their financial resources and make financial decisions.

Business owners who possess greater financial knowledge are more likely to maintain proper financial records, manage cash flows efficiently, and conduct financial planning for future business development. With a better understanding of financial concepts such as budgeting, cost management, and financial planning, MSME owners are able to monitor their business performance more effectively and make informed financial decisions. This capability enables them to allocate financial resources more efficiently, control operational costs, and plan for business expansion or investment opportunities. As a result, businesses managed by financially literate entrepreneurs tend to demonstrate stronger financial discipline and better financial stability.

In contrast, MSME owners with limited financial literacy often encounter difficulties in managing financial resources and making strategic financial decisions. Without adequate financial knowledge, business owners may struggle to maintain accurate financial records, monitor cash flow consistently, or evaluate the financial performance of their businesses. This lack of financial management capability can increase the risk of financial mismanagement, which may negatively affect business growth and long-term sustainability.

These findings are consistent with previous studies that emphasize the importance of financial literacy in improving financial behavior and financial management among entrepreneurs. Financial literacy enables MSME owners to understand key financial concepts, evaluate financial risks, and utilize financial products and services more effectively. Entrepreneurs who possess strong financial literacy are also better equipped to adapt to financial challenges, manage uncertainties, and take advantage of financial opportunities that support business development.

Overall, the results of this study highlight that improving financial literacy among MSME owners in Subang can significantly enhance financial management practices and support the long-term sustainability of MSMEs. Strengthening financial literacy through financial education programs, training initiatives, and access to financial information can help MSME owners develop better financial management skills. These improvements are expected to contribute not only to the financial performance of individual businesses but also to the broader development of the MSME sector and local economic growth.

CONCLUSION AND SUGGESTION

This study examined the impact of financial literacy on financial management practices among Micro, Small, and Medium Enterprises (MSMEs) in Subang. The findings indicate that financial literacy plays an important role in shaping how MSME owners manage their business finances. MSME owners who possess better financial knowledge and understanding tend to demonstrate more effective financial management practices, including proper financial record-keeping, budgeting, and cash flow management.

The results also reveal that although many MSME owners have basic financial knowledge, there are still limitations in terms of advanced financial understanding, particularly in areas such as financial planning, investment decisions, and financial risk management. These limitations often lead to less structured financial management practices, such as combining personal and business finances or relying on informal financial records.

Furthermore, the study confirms that financial literacy has a positive and significant influence on financial management practices among MSME owners. Higher levels of financial literacy enable entrepreneurs to make more informed financial decisions, manage financial resources more efficiently, and support the sustainability and growth of their businesses.

Based on these findings, it is important for policymakers, financial institutions, and local governments to strengthen financial education and training programs aimed at improving financial literacy among MSME owners. Programs such as financial management training, access to financial information, and support from financial institutions can help MSMEs improve their financial capabilities and enhance business sustainability.

Overall, improving financial literacy among MSMEs is a key strategy for strengthening financial management practices and supporting the long-term development of small businesses in Subang and other regional economic areas in Indonesia.

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