

Optimization of Credit Facilities for Empowering Small and Micro Enterprises Moderated by Financial Literacy

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ABSTRACT

PURPOSE - The purpose of the study is to analyze and predict the causal relationship of the impact of providing credit facilities to MSEs in Makassar City, in order to maximize their business income. Descriptive quantitative research model with sample determination through non-purposive sampling.

METHODOLOGY - . The research sample was 100 Makassar MSE actors who were used as respondents. Data collection from respondent questionnaires. Data analysis uses variant-based SEM to test models and theories. Testing of structural models and measurement models with the help of smartPLS 3.0.

FINDING - The test results show that the provision of credit facilities optimally has a significant and positive impact on increasing the business income of MSE actors in Makassar City. Financial literacy owned by MSE actors is able to increase their business income and the role of moderation. Financial literacy does not have an influence on the relationship between credit optimization and MSE empowerment.

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INTRODUCTION

The role of Micro, Small, and Medium Enterprises (MSMEs) is very vital in driving the rate of national economic growth (Alfira, 2023). Regarding the role and performance of MSMEs, many studies have been conducted, especially in relation to their contribution to advancing the national and regional economy. Small and Medium Enterprises (MSMEs) are one of the drivers of economic growth and contribute to increasing the gross domestic potential income (GDP) in Indonesia (Azzahra, 2021). Data from the Central Statistics Agency (2019) shows that the growth of Micro and Small Enterprises during the 2014-2019 period was able to increase the growth of MSME GDP from 3.87 percent to 6.02 percent. One of the important roles of MSMEs is in absorbing labor, thereby helping the government reduce the number of unemployed, which reaches more than 75 percent of the workforce outside the Agricultural Sector in Indonesia. In 2017, it was shown that the number of business units operating in Indonesia consisted of 99.9 percent of micro, small and medium enterprises (MSMEs) and 0.01 percent of large business actors (UB) (BPS, 2019).

The existence of the financial sector in a country's economy has an important role in efforts to increase economic growth (Anggadwita, 2014; Ayem, 2021). A well-developed financial sector will be able to encourage economic activities, especially after the Covid-19 pandemic hit

(Hutahaean, 2020). Credit distribution is the focus and main activity of banking in carrying out its function as an intermediary institution (Wibowo, 2016). In relation to the intermediation function, banks are obliged to channel credit to the micro and small business sector (Ratten, 2014). The role of MSMEs in the last few decades has been considered strategic, but its performance is considered not to be optimal in facing competition and overall production growth in a country (Wahyudiati, 2018). This can be associated with various obstacles and barriers that must be faced, especially in access to funding, production technology, marketing, and skills and access to information (Santoso et, al., 2015).

Micro and Small Enterprises in Makassar City have weaknesses that can make it difficult to develop compared to other businesses. These weaknesses include, limited capital, literacy levels in financial management or inadequate accounting understanding that can reduce business performance (Nurbayani, 2019).

The performance of micro and small businesses (MSEs) is influenced by several factors including aspects of Human Resources, from business owners to business managers, financial aspects of limited business capital, lack of collateral and not yet bankable, technical aspects of production such as limited tools and raw materials and marketing aspects, namely lack of understanding in marketing the product (Wahyudiati, 2018; Hamdallah, 2023). The increase in micro business profits is influenced by the accuracy of the use of funds, the amount of credit, credit burden, and credit application procedures (Ayem & Wahidah, 2021). There are research results that have been conducted by Indriyati (2018) and Hutabarat (2023) showing that the higher the provision of business credit has an impact on increasing the development of these SMEs.

Nakabili (2020) stated that a business, whether small or large, will not be free from capital problems. Especially in the MSME sector in Indonesia, MSMEs that are constrained by capital problems for business development are still quite numerous. On the other hand, MSME actors feel that taking out credit loans is something that is very difficult to do with a difficult process (Nurbayani, 2019). Other factors that affect the performance of MSMEs are the provision of credit and the ease of access to credit provided to MSME actors. The provision of credit to MSMEs is expected to be right on target so that it can be a solution to fulfilling capital for MSME actors to increase their business capacity (Cahyono, 2016).

This study aims to examine the influence of providing business credit facilities and its impact on the growth of micro and small businesses and financial literacy as a moderating variable.

LITERATURE REVIEW

Micro Small Enterprises

The development of micro and small enterprises (MSEs) needs to be developed by the government because they are resilient to current economic conditions, by creating a conducive climate in the form of tax relief and ease of licensing (Alfrian & Pitalola, 2020); (Pristiyono et al, 2025). MSEs are also known as the people's economy which is generally carried out by the weak economic class and family labor capital with minimal technology (Harahap & Tambunan, 2022). Meanwhile, according to Law number 20 of 2008, Micro and Small Enterprises are productive businesses run by individuals or individual business entities that meet statutory criteria.

Revenue Growth

Business revenue growth is an increase in cash inflow or an increase in other assets derived from product sales resulting from the main activities of the business. Revenue growth can be formulated by how much business revenue increases (Anita & Anggraeni, 2021). Micro and small businesses in the Indonesian economy have a role in providing employment,

empowering communities, reducing unemployment and creating new markets (Jannah & Tampubolon, 2024).

Credit Facilities

Credit according to Law number 10 of 1998 states the provision of money or bills that are equivalent to it, based on an agreement or loan agreement between the bank and another party, which requires the debtor to pay off the debt within a certain period of time with the agreed interest. The implementation of the provision of credit facilities is always based on the creditor's belief that the debtor can return the credit obtained at the agreed time so that a careful assessment is needed regarding the debtor's ability, collateral, capital and business prospects (Atika, 2015).

Financial Literacy

According to the Financial Services Authority circular (2017) that Financial Literacy is knowledge, skills and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity. Financial literacy according to () is a concept of knowledge about financial products and concepts with the help of information or input, is an ability to identify and understand financial risks in order to make and take decisions about finance appropriately (Choerudin & Widyaswati, 2023).

METHODOLOGY

The research approach used in this study is the quantitative research method. According to Sugyiono (2018) quantitative research methods based on the philosophy of positivism, are used to research certain populations or samples, sampling techniques are generally carried out by purposive sampling, data collection using research instruments, data analysis is quantitative statistics with the aim of testing the established hypothesis.

The study was conducted on MSME actors who actively participated in coaching activities from the Makassar City Cooperative and MSME Service. Data collection for the study was carried out from January to March 2024. The population in this study were micro and small business actors in Makassar City. The instrument in this study used a Likert scale, a modification of the 5-level Likert scale. The instrument consists of an independent variable, namely Optimization of Credit Facilities and a dependent variable, namely the Impact of Micro and Small Business Growth with Financial Literacy as a Moderation variable. The data collection method was by distributing questionnaires directly to MSME actors who were active and registered with the Makassar City Cooperative and MSME Service. The type of data used in the study is quantitative data collected using a questionnaire. Before distributing the questionnaire to respondents, the validity and reliability of the questionnaire were first tested (Ghozali, 2019).

Testing the variables of Credit Facility Optimization, Impact of MSE Growth and Financial Literacy using path analysis with the help of SmartPLS 3.0 software. The mathematical equation in this study can be seen as follows:

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_1 X_2 + e$$

where Y= variable Impact of UMK Income Growth, a= as a constant, X= Optimization of Credit Facilities, b1 is the regression coefficient, and e= is the error item.

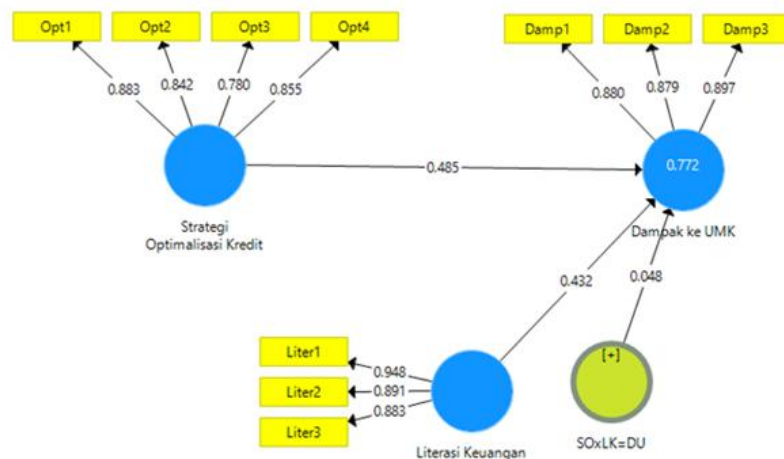
This study uses a population of Micro and Small Business actors in Makassar City. The sample in this study amounted to 100 respondents of MSME actors. Because this study was conducted using a questionnaire, the researcher distributed the questionnaire by meeting directly with the targeted respondents. The sampling method using the purposive sampling method is carried out by taking samples from the population based on certain criteria (Sugiyono, 2018).

The structural model equation uses the structural equation model (SEM-PLS) version 3.0 to analyze data and modeling paths with latent variables. The SEM-PLS model analysis uses two models, namely the measurement model or called the outer model and the structural model called the inner model (Ghozali, 2021).

RESEARCH RESULTS

First Order Confirmatory Factor Analysis Test & Structural Equation Model (SEM) Testing

First order construct testing where the testing will go through one level, namely the analysis is carried out from the latent dimension construct to its indicators. The main analysis method in this study was carried out using the Structural Equation Model (SEM). Full Model SEM testing was carried out with the help of the Smart PLS 3.0 program. As in the picture below:



Source : SmartPLS Output (2024)

Figure 1. Path Algorithm

Outer Model Test

There are 3 (three) measurement criteria used in data analysis techniques, namely convergent validity, composite reliability and discriminant validity (Ghozali, 2019).

Convergent Validity

The Validity Test Table shows that the Outer Loading of the construct measures is highly correlated with the MSME Empowerment, Financial Literacy, and Credit Facilities variables.

Table 1. Outer Loading

	UMK Government	Financial Literacy	SOxLK=DU	Credit Optimization Strategy
Damp1	0.880			
Damp2	0.879			
Damp3	0.897			
Liter1		0.948		
Liter2		0.891		
Liters3		0.883		
Opt1				0.883

Opt2	0.842
Opt3	0.780
Opt4	0.855
Optimal Credit Strategy * Financial Literacy	0.904

Source : Smart-PLS Output (2024)

Based on the table above shows the results of the estimation of the outer loading test calculation using PLS for the indicators of the Credit Optimization Strategy Variable, Financial Literacy and Impact on MSEs. The table shows that the loading factor is > 0.70 which means that all construct indicators are valid.

Composite Reliability Test or Reliability Test

The reliability of the research instrument was tested using composite reliability and Cronbach's Alpha coefficient. Reliable if the composite reliability and Cronbach alpha values are above 0.70 . AVE measurement measures the reliability of the component score of latent variables and it is recommended that the AVE value should be greater than 0.50 (Ghozali, 2019).

Table 2. Cronbach's Alpha, Composite Reliability and AVE

	Cronbach's Alpha	rho_A	Composite Reliability	(AVE)
Empowerment of MSMEs	0.862	0.863	0.916	0.784
Financial Literacy	0.893	0.913	0.933	0.824
SOxLK=DU	1,000	1,000	1,000	1,000
Optimal Credit Strategy	0.861	0.863	0.906	0.707

Smart- PLS Output (2024)

It is said that all constructs, namely the Credit Optimization Strategy, Financial Literacy and Impact on MSE variables, are fit measuring instruments, and all questions used to measure each construct have good reliability .

Discriminant Validity Test

So it can be seen that the square root value of AVE is higher than the correlation value, so it can be concluded that the model is valid because it meets discriminant validity.

Structural Model or Inner Model Test

The inner structural model is evaluated using R-square for the dependent latent variables, starting by looking at the R-square for each dependent latent variable. R-Square is a measure of the proportion of variation in the value of a variable that is influenced (endogenous) and can be explained by the variables that influence it (exogenous).

Table 3. R-Square of Variable Constructs

	R Square	Adjust R Square
Empowerment of MSMEs	0.772	0.765

Source: Smart- PLS Output (2024)

From the table, the R-Square value is 0.765, which means that it is included in the very strong category. The R-square value of the Impact on MSEs of 0.765 or 76.5% indicates that the Impact variable on MSEs can be explained by the Credit Optimization Strategy variable and the Financial Literacy moderation variable, while the remaining 23.5% can be explained by other variables not included in this study.

Hypothesis Test Results

Direct Effect Testing and Moderation Effect Testing .

Table 4. Path Coefficient

	Original Sample (O)	Standard Deviation (STDEV)	T Statistic	P Values
Financial Literacy -> UMK Funding	0.432	0.153	2,829	0.005
SOxLK=DU -> UMK_Payer	0.048	0.072	0.664	0.507
Credit Optimization Strategy -> MSME Financing	0.485	0.152	3.191	0.002

Source : Smart-PLS Output (2024)

The first hypothesis states that there is a positive and significant influence between the Credit Facility Optimization Strategy on Empowerment of MSEs with a significance level of 0.002 and a t-value of 3.191.

The second hypothesis states that there is no significant influence between the Credit Facility Optimization Strategy on MSME Empowerment with Financial Literacy moderation with P-Values of 0.507 ($0.507 > 0.005$) and t count of 0.664 ($0.664 < 1.96$).

The third hypothesis states that there is a positive and significant influence between Financial Literacy and Empowerment of MSEs with a significance level of 0.005 and a t-value of 2.829.

DISCUSSION

Based on the testing that has been carried out using the path analysis technique to obtain a picture or results regarding the Optimization of Credit Facilities for Empowering MSMEs moderated by Financial Literacy, it is explained as follows:

The Influence of Optimizing Credit Facilities on Empowering MSMEs.

That increasing access to credit facilities helps MSEs obtain the capital needed to develop their businesses. With additional capital, MSEs can increase production capacity, expand market reach, and improve the quality of products or services offered. Optimal access to credit allows MSEs to expand their business scale. This can include increasing the number of workers, purchasing new equipment or technology, and diversifying products. Larger business scales are often associated with increased revenue and profitability and with adequate financial support, MSEs can invest in innovation and improving product quality Anggadwita, G., & Mustafid, QY (2014).

The Influence of Credit Facility Optimization on MSME Empowerment with Financial Literacy as a Moderator

That high financial literacy helps MSEs understand and access credit facilities more effectively. Business owners who have good financial knowledge are better able to meet credit requirements, prepare strong business proposals, and understand the various credit products

available. Financial literacy increases the ability of MSEs to obtain the credit needed to grow. The credit facility optimization strategy moderated by financial literacy shows that MSEs with high financial literacy are more efficient in using the credit they obtain. With the support of financial literacy, the credit facility optimization strategy can encourage MSEs to be more innovative and increase their competitiveness. Business owners who have good financial knowledge are better able to assess the risks and benefits of new investments, and make more informed decisions about product diversification or market expansion. Financial literacy strengthens the positive impact of credit on MSE competitiveness Janah, URN, & Tampubolon, FRS (2024).

The Influence of Financial Literacy on MSME Empowerment

That MSEs with higher levels of financial literacy tend to be more efficient in managing their finances. MSE owners who understand financial recording, cash management, and budgeting can make better decisions about spending and investment, which leads to more optimal use of resources. MSEs with good financial literacy are better able to understand and access various sources of financing, including bank credit, venture capital, and grants. Good financial literacy allows MSE owners to make better decisions based on accurate information. This includes decisions about when to invest, when to save, how to price products or services, and how to manage cash flow. These better decisions contribute directly to increased profitability and business growth Wahyudiati, D., & Isroah. (2018).

CONCLUSIONS AND SUGGESTIONS

Optimizing credit facilities has great potential to empower MSEs and drive local economic growth. However, the success of this optimization is highly dependent on the support of education, simplification of procedures, and policies that favor MSEs. Good financial literacy has a significant positive impact on MSE empowerment. It helps MSEs manage their finances more efficiently, access financing resources, control risks, and make better decisions. Improving financial literacy is key to ensuring MSE growth and sustainability in the long term. The strategy of optimizing credit facilities for empowering MSEs moderated by financial literacy shows that financial literacy plays a key role in increasing credit effectiveness. Financial literacy helps MSEs access, use, and manage credit better, which in turn drives growth, innovation, and economic empowerment. Therefore, improving financial literacy among MSEs is a strategic step to maximize the benefits of credit facilities. Suggest that the government and financial institutions be more active in providing financial literacy education to MSME actors and training programs before credit is distributed in order to improve their ability to manage funds. Financial institutions should be more flexible in credit requirements so that they are easily accessible to MSEs and further research can identify other factors that can moderate credit utilization in MSEs.

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