

## THE INFLUENCE OF DIGITAL FINANCIAL LITERACY ON SME SUSTAINABILITY AND ITS IMPACT ON FINANCIAL WELFARE

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**ABSTRAK:** This research intends to explain the influence of digital financial literacy on the sustainability of MSMEs and its impact on financial well-being. The research method uses a qualitative descriptive method. This study used descriptive qualitative method. Qualitative research is descriptive and usually uses an inductive approach to analysis. This research is descriptive in nature, explaining the phenomena that occur in connection with the research in question. The goal of qualitative research is to study current trends and events. However, the aim of this study is to provide solutions and understanding regarding digital financial literacy so that it will increase the resilience and sustainability of small and medium industries in facing conditions of market uncertainty, the impact of which will improve financial welfare. This research concludes that for someone to be financially successful, management skills in the field of financial analysis and investment are needed, and financial resilience can be achieved. Financial literacy, especially digital literacy, is a complex issue in improving business sustainability, which will ultimately improve the financial well-being of entrepreneurs. This research shows that financial literacy, especially digital literacy, improves business sustainability. Business sustainability will have an impact on financial well-being and financial literacy will improve financial well-being. Encouraging literacy is very important so that SMEs can survive and be sustainable, which will ultimately have an impact on financial well-being. In conclusion, digital financial culture has a significant impact on the performance and sustainability of MSMEs. By increasing digital financial literacy, MSMEs can improve their business and ensure the sustainability of their business in the long term. Digital financial literacy also has a significant impact on financial well-being, so it is very important for MSMEs to pay attention to it and develop.

**Kata kunci:** Financial Literacy, Financial Welfare, MSMEs

## **INTRODUCTION**

As a sector that plays an important and vital role in supporting the Indonesian economy, MSMEs are expected to be able to survive and survive sustainably in the face of economic crises and uncertain situations. The situation in this era of uncertainty needs to be responded to with various strategies that adapt to the current situation (Safitri et al., 2022). With the development of technology business in Indonesia, many start-up companies have emerged. Recently, the world of startups has become a trend in Indonesia. Various success stories of local startups such as Gojek, BukaLapak, and Traveloka have sparked enthusiasm for the emergence of new startups. The financial services sector is also home to a number of startups that seek to provide financial services to the public. Apart from that, new innovations are also emerging from financial institutions in the financial sector, both of which can encourage economic growth in a better direction. Currently the financial sector is one of the sectors affected by technological developments, or it could be said that technology has entered the financial sector. Its development is gradually progressing rapidly and has the potential to bring the financial industry into the digital era. Many financial institutions, especially banks and savings and loan associations, have received programs from the government to help Indonesian MSMEs access capital (Winarto, 2020).

Good financial management is an important factor for the success of small and medium enterprises (SMEs). In today's digital world, digital financial management is becoming increasingly important. Digital financial management refers to the use of digital technology and specialized software to help small and large businesses manage aspects of their finances more efficiently and effectively. By using accounting software or digital accounting applications, small businesses can record all financial transactions that occur, including income, expenses and cash flow. Good record keeping is an important basis for producing accurate and stable financial reports. In general, digital financial management plays an important role in SME financial management. By adopting digital technology for financial management, small and large businesses can optimize efficiency, increase accuracy, manage cash flow, manage inventory, and generate the financial information needed to make informed decisions (Yolanda et al., 2023).

Various studies show that understanding digital financial literacy among economic actors improves financial management skills and access to company capital. Understanding digital financial literacy is an absolute necessity for economic actors. To ensure the success of digital financial innovation, the government through the OJK has launched a roadmap that focuses on strategies for regulating and supervising the business environment. Digital financial services are a highly effective policy that provides entrepreneurs and society with the opportunity to promote indicators and elements of financial inclusion. Digital financial literacy increases the awareness of small entrepreneurs to implement financial plans to successfully run their businesses. The Organization for Economic Co-operation and Development describes financial literacy as an understanding of concepts and risks, and that the financial well-being of individuals and countries depends on the ability to create effective financial habits, increase financial security, and participate in them. This can be corrected by taking the following steps such as economic activities. Economic actors who are financially literate can easily understand matters related to the financial services industry and have the information needed to access the financial services industry for their various business activities. The development of the financial services industry is the basis for economic growth. The increasing number of financial service products and the situation of global economic uncertainty are increasingly exacerbating complex problems related to financial decision making, so that community economic actors and MSMEs in the economic and financial sectors face challenges. Economic prosperity and financial literacy are important indicators for determining the quality of welfare. The aim of this research is to provide solutions and understanding regarding digital financial literacy to improve the survival and sustainability of small and medium businesses in the face of market uncertainty, with the impact of improving financial health (Safitri et al., 2022).

## **A. Financial Literacy**

According to Manurung (2009:24) Financial literacy is a set of knowledge and skills that enable a person to utilize all financial resources and make effective decisions (Winarto, 2020). Financial literacy means knowing how to manage money, pay off debt, consider interest rates, insurance, retirement planning, taxes, and financial products such as loans and cash advances. Financial literacy is an important aspect in understanding short and medium term financial concepts. This includes awareness and knowledge that can be applied both in a business context and in everyday life. The definition of financial literacy means that users of financial services have sufficient skills and knowledge to carry out financial operations and carry out various financial activities with appropriate supervision (Abdul et al., 2024).

Financial literacy plays a strategic role in improving financial management skills because without adequate financial literacy, there is a risk of investment misuse and various other financial planning risks. According to the Financial Literacy Index, only 30% of people fall into the "well educated" category. Financial literacy includes the knowledge, skills and confidence expressed in the process of managing finances and making appropriate short-term and long-term decisions and planning. Part of financial literacy includes understanding economic transactions and various types of practices, introduction to economic resources, introduction to the concept of spending, introduction to the concept of saving, introduction to the concept of sharing, and introduction to the concept of funding crime money. Sharia financial literacy is related to an individual's ability to practice knowledge and manage finances in accordance with Islamic law and sharia principles. The Financial Services Authority (OJK) divides financial literacy levels into four parts: Well Literate, Sufficient Literate, Less Literate, and Not Literate. This level shows the level of a person's ability to manage personal finances and make the right financial decisions (Safitri et al., 2022).

## **B. Financial Wellbeing**

Financial prosperity is where a person is able to fulfill his obligations, now and in the future, has preparations to meet his financial needs in the future, and is able to make choices that can be useful in his life. Financial well-being is the condition and feeling of a person who feels financially secure and healthy now and in the future, financial health for both individuals and business people as the desired financial health status, and as a comprehensive concept with many dimensions, which include satisfaction with finances, goals and financial conditions, financial views and behavior, and behavior that cannot only be assessed by involving a few measurements. An individual's understanding of how to manage his or her finances successfully. This financial knowledge varies from person to person and is also influenced by differences in mindset and gender. Financial literacy differs from person to person and can have a positive impact on financial well-being. Financial well-being can be influenced by personal characteristics such as goal attributes and characteristics related to financial well-being. The aim of this research is to test the concept and measurement of financial well-being according to individual characteristics (Safitri et al., 2022).

## **C. MSMEs**

Micro, Small and Medium Enterprises (MSMEs) are an abbreviation of these three words, and are basically companies or businesses run by individuals, groups, small businesses or households. As a developing country, Indonesia has MSMEs as its main economic base. This was done specifically to increase the community's capacity for independence in the economy. The growth of Indonesian MSMEs continues to increase qualitatively. This is due to the government's strong support for the development of MSME business activists which is very important in assessing the future economic situation as well as protecting and strengthening the national economy. The digital revolution 4.0 has brought many changes to MSMEs as consumer shopping styles shift from offline to online (Apprilisda Ranica Putri et al., 2023).

## **METHOD**

This study used descriptive qualitative method. Qualitative research is descriptive and usually uses an inductive approach to analysis. Types of research such as interpretive, naturalistic, and phenomenological are examples of qualitative research. More and more people are using qualitative research in everyday life to improve quality over quantity. This research is descriptive in nature, explaining the phenomena that occur in connection with the research in question. Objects in qualitative research are natural objects as they exist in normal situations, not objects manipulated by conditions or circumstances. Therefore, this method is called descriptive, namely a method that aims to describe the problem as it is. The goal of qualitative research is to study current trends and events. However, the aim of this study is to provide solutions and understanding regarding digital financial literacy so that it will increase the resilience and sustainability of small and medium industries in facing conditions of market uncertainty, the impact of which will improve financial welfare.

## **RESULT AND DISCUSSION**

One of the sub-sectors driving the regional economy is MSMEs which are also a key sector for the country's economic development. According to information from the Ministry of Cooperatives and Small and Medium Enterprises in 2001, Indonesia was home to 64.19 million businesses, or 99.99% of the total number of business units in this country. A total of 63.35 million or 98.68% of the 64.19 million businesses in Indonesia are classified as micro businesses, followed by 783,132 or 1.22 (%) small businesses and 60,702 or 0.09% small and medium businesses. Based on these statistics, the MSME sector is a significant absorber of labor. The expansion of the national economy is strongly supported by MSMEs which also increase the number of business units, employment, national income, exports and non-oil and gas investment. If supported by a business environment that provides protection, clarity and equality of business as well as support and incentives to develop their business, then MSMEs can operate optimally (Yolanda et al., 2023).

### **1. The Influence of Digital Financial Literacy on the sustainability of SMEs**

Depending on the possible sources of income, even people with modest income can start a business. In Indonesia, between 1998 and 2008, MSMEs demonstrated that they were able to survive and develop in unstable conditions, apart from stable or normal conditions. The ability of MSMEs to meet basic human needs and the speed of the transaction cycle is closely related to their potential. Even though MSMEs still face many challenges, especially related to the low quality of the workforce, poor performance of support systems, and ineffective legal regulations, MSMEs actually have great potential to boost economic growth. The progress of MSMEs depends on the field of financial management. According to the National Digital Research Center (NDRC), the term "fintech" is used to describe recent advances in the financial services industry. Basically, fintech refers to the application of technology in the financial industry. Startups offering financial services are currently the subject of intense scrutiny in the fintech space. This definition is in line with the Financial Services Authority (OJK) definition of fintech as a financial service. According to OJK, fintech products are tools specifically designed for the financial industry to manage exchange systems. The existence of a digital shop provides a more effective and easier way to buy and sell (transactions).

By utilizing the market effectively, consumers can gain knowledge and insight about fintech, making it easier to carry out digital transactions via mobile applications on Android and cellphones. The impact of digital financial literacy on the sustainability of SMEs (small and medium enterprises) has become a very relevant research topic in recent years. Digital financial literacy is the ability to understand and use digital technology in financial management and understand financial concepts related to business. Digital financial literacy is very important for small and medium-sized businesses because it allows them to manage their finances more effectively, improve business performance and increase their

ability to adapt to changes in business. Overall, the impact of digital financial literacy on the sustainability of SMEs is very significant. Digital financial literacy enables small businesses to manage their finances more effectively, improve business performance and increase their ability to adapt to business changes. Therefore, developing digital financial literacy must be a top priority for SMEs to improve their ability to face complex and dynamic business challenges (Yolanda et al., 2023).

## **2. The Effect of Digital Financial Literacy on Financial Well-Being**

Literacy has become a very important topic from a sustainability perspective in the fields of finance and business management, especially for small and medium enterprises (SMEs). In recent years, digital financial literacy has become a key element to improve SMEs' ability to adapt to market changes and improve their financial health. This research explains the impact of digital financial literacy on financial well-being. Digital financial literacy is especially important for small and medium-sized businesses, as they often have limited resources and need to adapt quickly to market changes. Digital financial literacy enables small businesses to manage their finances more effectively, access financial services, and make better business decisions. Apart from that, digital financial literacy also has a significant impact on financial well-being. Economic well-being can be defined as a person's level of financial satisfaction. Digital financial literacy enables individuals to manage their finances more effectively, access financial services, and make better business decisions. This can significantly improve their financial well-being. The first way for small businesses to understand and practice financial literacy is by gaining insight into the financial services industry. Entrepreneurs need to understand the institutions of the financial services industry before understanding the financial services and products offered. The importance of recognizing institutions in the financial services industry depends on how financial products and services can be accessed or used by business people and the general public. On the other hand, the public and economic stakeholders are expected to be able to differentiate between formal and informal types of financial service institutions, as well as recognize legal and illegal financial service institutions. Financial well-being depends on your economic behavior and the income streams you generate from the assets you own. Therefore, the ability to build assets is important to improve financial well-being (Safitri et al., 2022).

From this research it can be concluded that for someone to be financially successful, management skills in the field of financial analysis and investment are needed, and financial resilience can be achieved. Financial literacy, especially digital literacy, is a complex issue in improving business sustainability, which will ultimately improve the financial well-being of entrepreneurs. This research shows that financial literacy, especially digital literacy, improves business sustainability. Business sustainability will have an impact on financial well-being and financial literacy will improve financial well-being. Economic bodies that have a clear understanding of financial service organizations and institutions or financial products and services must also clearly understand the characteristics of financial products and services. This is necessary so that economic actors can choose and use financial products and services that suit their desires and skills. Likewise, if economic actors want financial instruments that provide significant returns and are able to estimate risks, then they must choose the right source of capital and can minimize commercial risks (Safitri et al., 2022).

## **CONCLUSION**

Financial literacy is attitudes, skills and beliefs that influence actions and attitudes to improve the quality of decision making and financial management to achieve financial prosperity. The urgency of the importance of financial literacy, especially digital literacy, can be seen from the results of studies related to financial health indicators which show that the financial health index figure in Indonesia is relatively small, namely around 37.72% of the total financial health index maximum amount. However, if we look at it in terms of financial resilience, it is still very low, with indicators including the ability to meet family financial

needs, sustainable business concepts, and basic financial knowledge that can be used as the main reference. Encouraging literacy is very important so that SMEs can survive and be sustainable, which will ultimately have an impact on financial well-being (Safitri et al., 2022). In conclusion, digital financial culture has a significant impact on the performance and sustainability of MSMEs. By increasing digital financial literacy, MSMEs can improve their business and ensure the sustainability of their business in the long term. Digital financial literacy also has a significant impact on financial well-being, so it is very important for MSMEs to pay attention to it and develop.

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