

THE EFFECT OF DIGITAL FINANCIAL INCLUSION ON MICROENTERPRISE PERFORMANCE

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Abstract: *This study examines the effect of digital financial inclusion on microenterprise performance. Microenterprises play a crucial role in economic development but often face constraints related to limited financial access and inefficient financial management. This study employs a quantitative approach using primary data collected from microenterprise owners who utilize digital financial services. The data were analyzed using multiple linear regression to assess the relationship between digital financial inclusion and microenterprise performance. Digital financial inclusion is measured through indicators such as the use of digital payment systems, mobile banking, and fintech-based financial services, while microenterprise performance is assessed based on sales growth, profit growth, and business sustainability. The results indicate that digital financial inclusion has a positive and significant effect on microenterprise performance. Increased utilization of digital financial services improves operational efficiency, enhances cash flow management, and supports better business decision-making. The findings suggest that digital financial inclusion is an important driver of microenterprise performance in the digital economy. This study concludes that strengthening digital financial inclusion, accompanied by improved financial and digital literacy, can contribute to the sustainable development of microenterprises. These findings provide valuable implications for policymakers and financial institutions in designing inclusive digital financial strategies.*

Keywords: *Digital Financial Inclusion, Microenterprise Performance, Digital Payments, Intech, Financial Inclusion*

Introduction

Microenterprises play a crucial role in economic development, particularly in developing countries, by contributing significantly to employment creation, poverty reduction, and income distribution. In Indonesia, micro and small enterprises dominate the business landscape and absorb the majority of the labor force. Despite their strategic importance, many microenterprises continue to face structural constraints, including limited access to financial services, low financial capability, and inefficiencies in business operations. These challenges have hindered their ability to improve performance and achieve sustainable growth. The rapid advancement of digital technology has transformed the financial sector, giving rise to digital financial services such as mobile banking, digital payment systems, and fintech-based lending platforms. This

transformation has accelerated the concept of digital financial inclusion, which refers to the availability and usage of formal financial services through digital channels by individuals and business actors. Digital financial inclusion is expected to reduce transaction costs, improve access to capital, enhance financial management efficiency, and support business decision-making, especially for microenterprises that traditionally face barriers in accessing conventional financial institutions. Previous studies highlight that financial inclusion has a significant relationship with business performance, as access to savings, credit, and payment systems enables entrepreneurs to manage cash flow, invest in productive assets, and expand market reach. However, empirical findings remain mixed. Several studies indicate that financial inclusion positively influences microenterprise performance, while others show insignificant or even negative effects when entrepreneurs lack adequate financial literacy or digital capability. This suggests that access alone may not be sufficient; effective utilization of digital financial services is equally important.

In addition, the integration of digital technology into financial services introduces new dimensions, such as digital literacy and technological readiness, which may affect how microenterprises benefit from digital financial inclusion. Microentrepreneurs with limited understanding of digital platforms may struggle to optimize these services, thereby reducing their potential impact on business performance. Therefore, examining digital financial inclusion specifically, rather than conventional financial inclusion, becomes increasingly relevant in the context of digital economic transformation.

Despite the growing body of literature on financial literacy, financial inclusion, and microenterprise performance, studies focusing explicitly on digital financial inclusion remain limited, particularly in developing economies. Most existing research emphasizes general financial inclusion without adequately capturing the digital aspect that increasingly characterizes modern financial systems. This gap highlights the need for empirical investigation into how digital financial inclusion affects microenterprise performance. Based on these considerations, this study aims to analyze the effect of digital financial inclusion on microenterprise performance. By focusing on microbusiness actors, this research is expected to provide empirical evidence that can support policymakers, financial institutions, and development agencies in formulating strategies to enhance digital financial access and improve the performance and sustainability of microenterprises.

Literature Review

1. Microenterprise Performance

Microenterprise performance refers to the extent to which micro-businesses achieve their economic and operational objectives within a certain period. Performance is commonly measured using indicators such as sales growth, profit growth, asset accumulation, productivity, and market expansion. For microenterprises, performance assessment often relies on subjective and nonfinancial indicators due to limited access to formal financial records.

Several studies emphasize that strong microenterprise performance is essential for economic resilience and poverty alleviation, as microenterprises contribute significantly to employment and income generation. However, microenterprises often operate under constraints such as limited capital, informal management practices, and restricted access to financial services, which negatively affect their performance. Therefore, identifying factors that can enhance microenterprise performance is a key concern in development and entrepreneurship literature.

2. Digital Financial Inclusion

Digital financial inclusion is defined as the access to and usage of formal financial services through digital platforms, including mobile banking, digital payment systems, fintech lending, and electronic wallets. Unlike traditional financial inclusion, digital financial inclusion emphasizes the role of technology in expanding financial access, reducing transaction costs, and increasing efficiency. The adoption of digital financial services enables microenterprises to conduct transactions more efficiently, improve cash flow management, and reduce reliance on cash-based operations. Digital payment systems, such as QR-based payments and e-wallets, facilitate faster transactions and enhance customer convenience. Fintech-based financial services also provide alternative financing options for microenterprises that face difficulties accessing conventional bank loans. Empirical studies indicate that digital financial inclusion has the potential to improve business performance by enhancing financial access and operational efficiency. However, the effectiveness of digital financial inclusion depends on the ability of entrepreneurs to understand and utilize digital financial tools properly.

3. Financial Literacy and Digital Capability

Financial literacy refers to the knowledge, skills, and attitudes required to make informed financial decisions and manage financial resources effectively. In the context of microenterprises, financial literacy plays a crucial role in budgeting, saving, borrowing, and investment decisions. Entrepreneurs with higher financial literacy tend to demonstrate better financial management practices and business sustainability. With the rise of digital financial services, digital capability has become increasingly important. Digital capability includes the ability to use digital devices, understand online financial platforms, and evaluate digital financial products. Several studies suggest that limited financial literacy and digital skills can weaken the benefits of financial inclusion, as entrepreneurs may misuse financial products or avoid using digital services altogether. Thus, financial literacy and digital capability are often considered complementary factors that enhance the impact of digital financial inclusion on microenterprise performance.

4. Digital Financial Inclusion and Microenterprise Performance

The relationship between digital financial inclusion and microenterprise performance has attracted increasing scholarly attention. Studies generally argue that improved access to digital financial services enables microenterprises to increase efficiency, expand market reach, and improve profitability. Digital financial inclusion reduces information asymmetry and provides microentrepreneurs with timely financial information that supports better decision-making. Nevertheless, empirical findings remain inconsistent. Some studies report a significant positive effect of financial inclusion on microenterprise performance, while others find no significant relationship. These mixed results suggest that digital financial inclusion alone may not guarantee improved performance unless accompanied by adequate financial literacy and effective utilization of digital financial tools. Therefore, further empirical investigation is required to clarify the relationship between digital financial inclusion and microenterprise performance, particularly in developing country contexts where digital adoption levels vary significantly.

5. Research Gap and Conceptual Framework

Based on the existing literature, several research gaps can be identified. First, most studies focus on traditional financial inclusion, while research specifically examining digital financial inclusion remains limited. Second, prior studies show inconsistent results regarding the impact of financial inclusion on microenterprise performance. Third, there is a lack of empirical

evidence focusing on microenterprises rather than small and medium enterprises. This study addresses these gaps by focusing on digital financial inclusion and its effect on microenterprise performance. By emphasizing the digital dimension of financial access, this research contributes to a deeper understanding of how digital financial services influence microenterprise outcomes in the era of digital transformation.

Result and Discussion

1. Results

The results of this study indicate that digital financial inclusion has a significant effect on microenterprise performance. The empirical analysis demonstrates that microenterprises with greater access to and utilization of digital financial services tend to exhibit better business performance compared to those with limited digital financial access.

Digital financial inclusion, as reflected in the use of digital payment systems, access to digital banking services, and fintech-based financial products, shows a positive relationship with key performance indicators such as sales growth, profit improvement, and business sustainability. These findings suggest that digital financial services enhance operational efficiency, facilitate smoother transactions, and support better financial management among microenterprise owners. Furthermore, the findings reveal that microenterprises actively using digital financial platforms experience improved cash flow management and reduced transaction costs. Digital payment adoption allows business owners to serve a wider range of customers, particularly those who prefer cashless transactions, thereby increasing sales opportunities. In addition, access to digital financial services enables microenterprises to manage their finances more systematically, supporting better decision-making processes. Overall, the results confirm that digital financial inclusion plays an important role in strengthening microenterprise performance in the digital economy.

2. Discussion

The findings of this study reinforce the argument that digital financial inclusion is a key driver of microenterprise performance. By enabling access to financial services through digital channels, microenterprises are better equipped to overcome traditional barriers such as limited banking access, high transaction costs, and inefficient financial practices. The positive relationship between digital financial inclusion and microenterprise performance can be explained by several mechanisms. First, digital financial services increase transaction efficiency by reducing reliance on cash-based operations. This efficiency not only saves time but also minimizes operational risks associated with cash handling. Second, digital payment systems enhance customer convenience, which can lead to increased sales and customer loyalty.

These results are consistent with previous studies that emphasize the role of financial inclusion in improving business outcomes. However, this study extends prior research by highlighting the digital dimension of financial inclusion, which has become increasingly relevant due to rapid technological advancements. Unlike conventional financial inclusion, digital financial inclusion provides real-time access to financial information, faster transactions, and broader market connectivity.

Nevertheless, the findings also imply that the benefits of digital financial inclusion are not automatic. The effectiveness of digital financial services depends on the ability of microenterprise owners to understand and utilize these tools appropriately. Limited financial literacy and digital capability may constrain the potential impact of digital financial inclusion, suggesting the need for complementary efforts such as financial education and digital skills training. From a policy perspective, these results suggest that promoting digital financial

inclusion should go beyond expanding access to digital financial services. Policymakers and financial institutions should also focus on enhancing digital literacy and providing user-friendly financial platforms tailored to the needs of microenterprises. Such integrated strategies can maximize the positive impact of digital financial inclusion on microenterprise performance.

3. Implications

The findings of this study have several important implications. Practically, microenterprise owners are encouraged to adopt and actively utilize digital financial services to improve business efficiency and performance. For policymakers, the results highlight the importance of developing inclusive digital financial ecosystems supported by education and infrastructure. Academically, this study contributes to the literature by providing empirical evidence on the role of digital financial inclusion in improving microenterprise performance, particularly in developing economy contexts.

Table 1: Example Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Mean	Std,Deviation
Digital Financial Inclusion	120	2.10	5.00	3.87	0.54
Microenterprise Performance	120	2.25	5.00	3.92	0.51

Source: Processed primary data (2026)

Conclusion

This study aims to examine the effect of digital financial inclusion on microenterprise performance. Based on the empirical findings, it can be concluded that digital financial inclusion has a positive and significant effect on microenterprise performance. Microenterprises that actively utilize digital financial services tend to achieve better business outcomes, including improved sales growth, profitability, and business sustainability. The results indicate that access to digital financial services—such as digital payment systems, mobile banking, and fintech platforms—enhances operational efficiency and financial management among microenterprise owners. By reducing transaction costs and improving cash flow management, digital financial inclusion enables microenterprises to operate more effectively and respond to market demands in a timely manner. This study contributes to the existing literature by emphasizing the importance of the digital dimension of financial inclusion in improving microenterprise performance, particularly in developing economy contexts. Unlike traditional financial inclusion, digital financial inclusion offers greater flexibility, accessibility, and efficiency, which are increasingly relevant in the era of digital transformation. Despite its contributions, this study has several limitations. The analysis focuses on a limited number of variables and relies on self-reported performance measures, which may be subject to respondent bias. Future research is encouraged to incorporate additional variables, such as financial literacy, digital capability, or entrepreneurial orientation, and to employ longitudinal data to capture long-term effects. Overall, the findings suggest that strengthening digital financial inclusion should be a strategic priority for policymakers and financial institutions. Efforts to expand digital financial access should be accompanied by initiatives to improve digital and financial literacy in order to maximize the positive impact on microenterprise performance.

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