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Systematic Literature Review: The Impact of Financial Literacy on MSME Financial Management

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Abstrak

UMKM merupakan pilar penting perekonomian Indonesia dengan kontribusi sekitar 61% PDB dan penyerapan 97% tenaga kerja. Namun, banyak UMKM menghadapi kendala dalam pengelolaan keuangan yang efektif, terutama karena rendahnya literasi keuangan. Literasi keuangan, yang mencakup pemahaman dasar tentang pengelolaan kas, pembiayaan, dan investasi, terbukti penting untuk meningkatkan pengambilan keputusan yang tepat dalam mengelola utang, menabung, dan merencanakan investasi. Penelitian ini menggunakan pendekatan telaah pustaka sistematis dengan kerangka PICO untuk mengidentifikasi dan mensintesis temuan dari berbagai penelitian. Hasil penelitian menunjukkan bahwa peningkatan literasi keuangan, jika diintegrasikan dengan inklusi keuangan dan penggunaan teknologi keuangan, secara signifikan meningkatkan kinerja keuangan dan keberlanjutan UMKM. Penelitian sebelumnya telah mengungkapkan bahwa pelaku UMKM dengan pengetahuan keuangan yang mendalam mampu menerapkan strategi manajemen yang lebih terstruktur, sehingga menghasilkan efisiensi operasional, peningkatan profitabilitas, dan kesiapan menghadapi persaingan pasar. Implikasi dari temuan ini adalah perlunya kebijakan dan program pelatihan literasi keuangan yang intensif.

Kata kunci: *literasi keuangan, pengelolaan keuangan, UMKM.*

Abstract

MSMEs are a vital pillar of Indonesia's economy by contributing around 61% of GDP and absorbing 97% of the workforce. However, many MSMEs face obstacles in effective financial management, especially due to low financial literacy. Financial literacy, which includes a basic understanding of cash management, financing, and investment, proves to be essential for improving informed decision-making in managing debt, saving, and planning investments. This study uses a systematic literature review approach with the PICO framework to identify and synthesize findings from various studies. The results of the study show that increasing financial literacy, when integrated with financial inclusion and the use of financial technology, significantly improves the financial performance and sustainability of MSMEs. Previous studies have revealed that MSME actors with in-depth financial knowledge are able to implement more structured management strategies, resulting in operational efficiency, increased profitability, and readiness to face market competition. The implications of these findings are that there is an urgent need for intensive financial literacy policy and training programs.

Keywords: *financial literacy, financial management, MSMEs.*

INTRODUCTION

MSMEs (Micro, Small and Medium Enterprises) are a vital economic pillar in many countries, including Indonesia. In Indonesia, MSMEs can affect various pillars such as economy, social and national development. The role of MSMEs in the Gross Domestic Product (GDP) is very significant, contributing by contributing approximately 61% of Indonesia's GDP and helping the government reduce the significant unemployment rate of approximately 97% of the national workforce (Indonesian MSMEs 2023). This figure illustrates that MSMEs are the dominant driving force in the national economy. This proves the importance of relevant recommendations and policies to support MSMEs because they are able to reduce the unemployment rate (Raj & Sasidharan 2020). However, MSMEs often face challenges in effective and sustainable financial management. Financial literacy, or understanding of basic financial concepts, including cash management, financing, and investment, has been recognized as a key factor in improving the financial performance of MSMEs.

Financial literacy is a person's ability to understand concepts and abilities in applying financial concepts and science in their daily lives (Lusardi and Mitchell 2014). Previous research shows that increasing levels of financial literacy can help individuals and business owners decide on better financial actions to manage debt and savings.

Studies show that low financial literacy among MSME actors can result in various financial problems, including inability to access capital, difficulties in cash flow management, and suboptimal financial decision-making. Good financial literacy helps

MSME entrepreneurs in understanding financial information, managing debt wisely, and planning the right investments for their business growth.

In this study, a systematic literature review will be carried out to identify and analyze the impact of financial literacy on the financial management of MSMEs. Systematic Literature Review (SLR) is a comprehensive method of collecting, evaluating, and concluding existing research findings on a particular topic. This approach will allow researchers to obtain a comprehensive picture of the relationship between financial literacy and MSME financial management, as well as identify existing research gaps.

This research was inspired by the awareness of the importance of financial literacy in the context of MSMEs. Although financial literacy is considered crucial, there are still limitations in a deep understanding of how financial literacy specifically affects MSME financial management practices (Lusardi and Mitchell 2014). Therefore, literature analysis is a relevant method to explore previous studies and gain a better understanding of the relationship between financial literacy and MSME financial management.

Through a literature analysis approach, this study hopes to make a significant contribution to the understanding of how improving financial literacy can improve MSME financial management, as well as provide direction for better policies and practices in supporting the MSME sector as a whole.

The research formulation of this study focuses on three questions as follows

Q1 : How does the impact of financial literacy affect financial management decisions among MSMEs

Q2 : What are the factors that affect financial literacy among MSME actors

Q3: What is the impact of financial literacy on financial management in MSMEs.

This study aims to compile and evaluate findings that have existed previously in the literature related to the impact of financial literacy on the financial management of MSMEs. By conducting a comprehensive literature analysis, this study aims to identify research patterns, key findings, and gaps that still need to be explored further. Thus, this study not only provides in-depth insights into the importance of financial literacy for MSMEs, but also provides a solid foundation for further research in this field.

LITERATURE REVIEW

Theory of the relationship between financial literacy and financial management in MSMEs

Theories that explain the relationship between financial literacy and financial management according to (Lusardi and Mitchell 2014) *Behavioral Finance Theory* (Financial Behavior Theory) in this theory assumes that a person's financial decision-making is

influenced by financial literacy. The higher the level of financial literacy of MSME owners, the higher the level of rationality in managing their finances and improving their ability to manage data and make data-driven decisions. Financial literacy is an important point for MSME actors to manage company finances well to reduce business risks (Published in 2016).

Financial Literacy

Financial literacy theory is growing, there has been an increase since 2019 and is continuous and the focus on how financial literacy affects individual welfare and economic stability is getting wider. Financial literacy can improve a person's standard of living, this is related to a person's ability to manage their finances and use their finances according to their needs (Lauria et al. 2014). The more financial literacy a person has, the more ways a person can make the right financial decisions, for example the decision to choose good quality to improve his business.

Some relevant financial literacy theories: 1) Financial literacy theory in decision-making, the concept of this theory is about understanding the concept of financial products and services can improve the ability of individuals to make financial decisions. Financial literacy is the main determinant of rational financial behavior, a good understanding improves an individual's ability to manage debt, save and invest in a more efficient way (Lusardi and Mitchell 2014). 2) Theory of Financial Literacy and Financial Welfare, This theory explains that good financial literacy has a significant effect on improving a person's financial well-being (OECD 2020).

Financial Management

Financial management is a strategic process that includes planning, implementing, and evaluating the use of financial resources to achieve organizational goals efficiently and effectively. According to (Sari, Mulyadi, and Carlinda 2023), financial management involves identifying the need for funds, preparing a budget, as well as monitoring and evaluating financial performance to ensure the stability and growth of the company. This concept emphasizes the importance of optimal resource allocation to support operational sustainability and the achievement of organizational strategic goals.

In practice, financial management includes various aspects, including cash management, investment analysis, cost control, and risk management. (Anjarwati and Islamiah 2024), Financial sustainability is not only an ethical responsibility, but also requires mature strategies and controls in the face of the digital era. Conceptually, financial management is not only concerned with the technical aspects of financial calculation and

reporting, but also involves strategic planning such as investment management and risk assessment.

RESEARCH METHODS

The methods used in this study are *systematic literature review (SLR)*. The use of this literature review has very significant benefits in synthesizing various relevant research results. Thus the facts presented become more complete and balanced. *systematic literature review* meet specific research objectives transparently and seek to include all published evidence on a particular topic and assess its quality (Lame 2019).

Based on the PICO framework, the keywords used are financial literacy, financial management, and MSME management. These keywords are the basic keywords that will be developed when conducting literature searches.

Table 1
Framework PICO

PICO Tool	
Population	MSMEs
Intervention	Financial Literacy and Financial Management
Comparison	-
Outcome	The impact of financial literacy on financial management decisions among MSMEs factors that affect financial literacy among MSME actors. the impact of increasing financial literacy on the financial performance and sustainability of MSMEs.

Source : Article Analysis

The data used in this study is secondary data, consisting of research results published in online journals. The data search was carried out by Google Scholer, the Ministry of Education and Culture's sinta and Scoopus. This research is adjusted to the PICO framework consisting of two literature criteria, namely the Inclusion criteria and the Exclusion criteria as follows:

Table 2
Inclusion criteria and exclusion criteria

Criterion	Inclusion	Exclusion
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Openness of access	Documents that only publish open access	Documents with closed access
Period	Publication Deadline 2018 - 2024	Publications before 2018
Subject area	Business, Management and MSMEs	Outside of Business, Management and MSMEs
Tahap Publish	It has reached the final stage	Not yet in the final stage
Keywords	Financial literacy, financial management, MSMEs	Outside, financial literacy, financial management and MSMEs
Language	Indonesian Language	In addition to Indonesian

Source : Article Analysis

RESULTS AND DISCUSSION

Table 3

The impact of financial literacy affects financial management decisions among MSMEs

It	Article Title	Researchers	Findings
1	The effect of financial literacy on the performance and sustainability of MSMEs in Central Java	Dwitya Aribawa (Aribawa 2016)	Financial literacy is not only important for effective financial management, but also plays a crucial role in improving the performance and sustainability of MSMEs through better decision-making.
2	The level of Islamic financial literacy among MSMEs and its impact on business development	(Djuwita and Yusuf 2018)	The results of the study obtained were that only the variables of business length and number of employees had a significant effect on financial knowledge. All demographic variables (location, age, gender, education, type of business, length of business, initial capital, source of capital, income, and number of employees) did not affect the financial behavior and financial attitude of street vendors. Only financial behavior affects the business

			development of street vendors, while financial knowledge and financial attitude do not affect business development.
3	The Influence of Financial Literacy and Financial Inclusion on the Performance of Sidoarjo MSMEs	(Septiani and Wuryani 2020)	Financial literacy and financial inclusion are factors that affect the development of MSME performance in Sidoarjo.
4	The effect of financial literacy on the performance and sustainability of MSMEs in the city of Surabaya	(Rahayu and Musdholifah 2017)	The higher the level of financial literacy of the business owner or manager, the business owner will have the ability to manage his business properly with his business and financial decisions towards improving the sustainability of his business. The higher the financial knowledge for the business manager, the better the ability of the business to survive in the midst of a crisis and ultimately will make the business have long-term sustainability.
5	MSME Digitalization and Financial Literacy for MSME Sustainability in Cilacap Regency	(Kusuma, Narulitasari, and Nurohman 2022)	Business actors who have good financial literacy skills tend to be able to make good financial decisions and business decisions, this will lead to development for the future, increasing the ability of businesses to survive in the midst of pandemic conditions so that businesses can maintain long-term sustainability and sustainability

Source : Article Analysis

Research on the impact of financial literacy on financial management decisions among MSMEs shows that an adequate level of financial understanding and knowledge can affect the effectiveness of decision-making in the financial sector. MSMEs, as one of

the important pillars in the national economy, rely heavily on the ability of business owners to understand basic financial concepts, such as budget planning, cash management, and financial performance evaluation. With good financial literacy, MSME owners tend to be wiser in allocating resources, identifying investment opportunities, and avoiding risky financial practices.

Table 4
factors that affect financial literacy among MSME actors.

It	Article Title	Researchers	Findings
1	Strategic Integration of Investment Management and Risk Assessment in MSME Financial Management.	(Sari, A. and Hadi 2019)	The implementation of the right investment strategy and comprehensive risk evaluation can increase the effectiveness of financial management for MSMEs, going beyond the aspects of financial recording and reporting alone.
2	The Influence of Investment Strategy and Risk Assessment on the Company's Financial Performance.	(Setyo, D. and Wulandari, E. 2020)	The implementation of the right investment strategy and a comprehensive risk assessment system have a significant contribution to improving financial performance, emphasizing the role of strategic planning in financial management.
3	Analysis of Strategic Financial Management in Medium Companies: Investment and Risk Approaches.	(Nugroho, F. and Setiawan, I. 2021)	The importance of a strategic approach in financial management that includes investment aspects and comprehensive risk assessment, as an effort to improve the efficiency and competitiveness of medium-sized companies.
4	Modern Financial Management: The Synergy between Technical Reporting and Investment Planning.	(Rahmawati, Y. and Susanto, H. 2022)	The synergy between an accurate financial reporting system and strategic investment planning is the key to increasing transparency and more effective financial decision-making.

5	Strategic Planning in Financial Management: Integration of Investment Management and Risk Assessment in MSMEs.	(Yuliana, R. and Setia, P. 2023)	Strategic planning capacity building—through the integration of investment management and risk assessment—plays an important role in improving the competitiveness and sustainability of MSMEs.
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Source : Article Analysis

Each journal contributes to explaining that modern financial management not only includes technical aspects, but also demands a holistic planning approach—including investment management and risk assessment—to support the sustainability and growth of MSMEs

Table 5

The impact of increasing financial literacy on the financial performance and sustainability of MSMEs

It	Article Title	Researchers	Findings
1	The Role of Financial Literacy and Financial Technology Through Financial Inclusion for the Sustainability of MSMEs	(Fernando, Ama Longgi, and Wainip, Epin. 2024)	The adoption of improved financial literacy through the use of digital platforms has been proven to improve the efficiency of financial management, which directly contributes to the sustainability and growth of MSMEs. MSMEs that are able to optimize access to digital financial services show significant improvements in financial performance indicators and business resilience
2	The Influence of Financial Literacy, Financial Attitudes, and Financial Behavior on the	(Utami. and Abdullah. 2024)	The analysis shows that financial literacy, attitudes, and behaviors have a positive effect on the performance of MSMEs, with increasing financial understanding being a key factor in increasing the

	Performance of MSMEs in Bengkulu City		effectiveness of financial management in Bengkulu City
3	The Influence of Financial Literacy and the Use of Financial Technology on the Financial Performance of MSMEs in the Culinary Sector in Sail District, Pekanbaru City	(Monica. and Ruzikna. 2024)	This study reveals that increasing financial literacy and the use of financial technology simultaneously have a positive and significant effect on the financial performance of MSMEs in the culinary sector, which shows that financial digitalization is an important catalyst for business growth
4	Sustainability of Women's MSMEs: Financial Literacy, Financial Inclusion, and Fintech	(Puspitasari, Et al. 2024)	Increasing financial literacy among women MSMEs significantly improves the financial decision-making process and increases business resilience, especially when integrated with inclusive access to digital financial products through fintech. This is reflected in the improvement of business sustainability indicators, such as cash flow stability and long-term growth
5	The Effect of Financial Literacy, Financial Inclusion, and Financial Management on the Performance of MSME Actors in the City of Bandung	(Sariwulan, Landarica. and Sabila. 2023)	Increasing financial literacy, when supported by better access through financial inclusion and applied through structured financial management practices, significantly improves the financial performance of MSMEs. Simultaneously, these three variables contribute 55.2% to the variability of the financial performance of MSME actors.

Source : Article Analysis

The five journals provide empirical evidence that increasing financial literacy, especially when integrated with the inclusion and utilization of financial technology, plays

an important role in improving financial performance and supporting the sustainability of MSMEs.

Empirically, previous studies have revealed that increasing financial literacy significantly contributes to improving financial management decisions. Data shows that MSME actors who have more in-depth financial knowledge are able to implement more structured financial management strategies, resulting in operational efficiency and increased profitability. In addition, financial literacy also plays an important role in helping MSMEs access more diverse sources of funding, because understanding credit and investment mechanisms allows them to be better prepared to face competition in the market.

The implications of these findings emphasize the importance of policy interventions and financial literacy training programs targeted at MSME actors. Increasing financial literacy not only has an impact on internal decisions in financial management, but also has the potential to strengthen the competitiveness of MSMEs in an increasingly dynamic market. Therefore, collaborative efforts between the government, financial institutions, and the business community are urgently needed to develop education and mentoring programs that can optimize the potential of MSMEs through increasing financial management knowledge and skills.

CONCLUSION

MSMEs are an important pillar of Indonesia's economy, contributing around 61% of GDP and absorbing almost 97% of the national workforce. However, MSMEs often face challenges in effective and sustainable financial management. Financial literacy, i.e. the ability to understand and apply basic financial concepts such as cash management, financing, and investment, has proven to be a key factor influencing optimal financial decision-making. Low financial literacy causes difficulties in accessing capital and managing cash flow, while increasing financial literacy allows business owners to make wiser decisions and improve operational efficiency and profitability.

The systematic literature review approach is used to collect, evaluate, and synthesize the results of previous research on the relationship between financial literacy and MSME financial management. These studies reveal that the integration of financial literacy with financial inclusion and the use of financial technology (fintech) significantly strengthens business stability and resilience. In addition, the implementation of investment planning strategies and risk assessments also contributes to the sustainability of MSMEs. Thus, increasing financial literacy not only improves internal financial management, but also

supports the growth and competitiveness of MSMEs. The implications of this study emphasize the need for integrated policies and training programs between the government, financial institutions, and the business community to optimize the potential of MSMEs.

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