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The Influence of Financial Literacy on The Application of Fintech and Its Impact on The Sustainability of MSME Businesses

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ABSTRACT

The purpose of this study is to determine the level of literacy and application of fintech and its impact on the sustainability of MSME businesses in Tegal City. The method of data collection in this study was using questionnaires. Meanwhile, the sampling technique uses purposive sampling as many as 72 MSMEs. The hypothesis proposed, was statistically tested using WarpPLS version 7.0. The results of the study found that 1) financial literacy affects the use of fintech in MSMEs, 2) the use of fintech affects the business sustainability of MSMEs. 3) Financial literacy affects the sustainability of MSME business 4) The use of fintech is able to mediate the relationship between financial literacy and MSME business sustainability. Adequate financial literacy and the use of appropriate financial technology have a direct impact on the sustainability of MSME businesses so that they can compete in the market for a long time. MSMEs can carry out strategies to support business sustainability, namely through financial literacy and the use of fintech in their daily transactions. The implication for related parties is to be able to propose programs that can support the optimization of MSME business sustainability.

INTRODUCTION

The establishment of a business entity has the main purpose of business sustainability in the future. The Indonesian state has a business that is one of the supporters of the State Budget, namely MSMEs (Limanseto, 2021). Of the various types of businesses, MSMEs are precisely one of the businesses that can survive the impact of COVID-19 and are able to improve their business sustainability. Only a few types of MSMEs in Indonesia are included in the category of Small and Medium Enterprises. However, the majority of the majority are included in the Micro Business category, which is 98.70% (Putri, 2020). The government creates and develops types of Small Micro and Medium Enterprises so that the economy in Indonesia has increased, poverty has decreased, and is able to create job opportunities, especially for the community. The Minister of Finance also explained that MSMEs are the most dominant business sector in improving the national economy (Monica et al., 2017).

The rapid development of MSMEs in Indonesia has an impact on increasingly competitive business competition. This forces MSMEs to be able to adapt to be able to innovate to maintain their business. The many obstacles experienced by MSME owners, such as lack of knowledge in financial

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management and lack of skills to use *financial technology* services, will have an impact on delays in MSME business sustainability (Hamzah & Suhardi, 2019).

Increasingly competitive business competition, especially for MSMEs in Indonesia, requires MSMEs to maintain their business, develop their business and be sustainable in the future. This development requires MSMEs to be able to manage their finances effectively and efficiently. One important factor that can affect business sustainability is financial literacy owned by MSME owners who play a role in managing and running their business (Panggabean et al., 2018).

To maintain the existing business in MSMEs, there are many factors that influence it. With the COVID-19 pandemic that occurred throughout the world, there was a decrease in sales turnover that was felt by many MSME owners. If these conditions are not addressed properly, it is possible that MSMEs can experience losses in the long term and even go bankrupt. MSME owners are required to be able to overcome this condition, one of which is by selling and marketing *online* in order to maintain the sustainability of their business. To support the sustainability of MSME business, MSMEs are required to have a strategy in competing and be able to provide new innovations to their business (Aswin et al., 2022).

The main factor that becomes an obstacle in running a business in MSMEs is the lack of financial literacy owned by MSME owners. This will have an impact on the poor performance of MSMEs so that access to financing from banks also has difficulties (Rumbianingrum & Wijangka, 2018). Financial literacy in Indonesia is included in the fairly low category even though in number Indonesia has a fairly large number of MSMEs compared to other countries. Based on the results of the National Financial Literacy and Inclusion Survey conducted by OJK in 2019, the level of financial literacy and financial inclusion reached 38.03% and 76.19% and in the Microfinance Institution group it was only 0.85% (OJK, 2019).

Financial literacy is a person's level of knowledge in running their finances to manage cash in and cash out and others by applying the principle of accountability so that their performance is good (Putri, 2020). Low financial literacy possessed by a person results in less precise decision making. This also has a negative impact on the financial well-being of MSME owners. The slow development of MSMEs can be influenced by the factor of low financial literacy levels so that it can cause a decrease in the welfare of MSME owners. Thus, business owners are required to be able to understand the concept of managing finances wisely.

Another factor related to business sustainability is technology. The rapid development of technology has penetrated various sectors at every time and has penetrated into various fields. One of the fields that has experienced technological developments is the financial sector. One example of technological development in the financial sector is the emergence of *financial technology* (*fintech*). Technology in the field of financial services has innovated with the emergence of various *digital platforms* as a means of payment, lending and investment (Budyastuti, 2021).

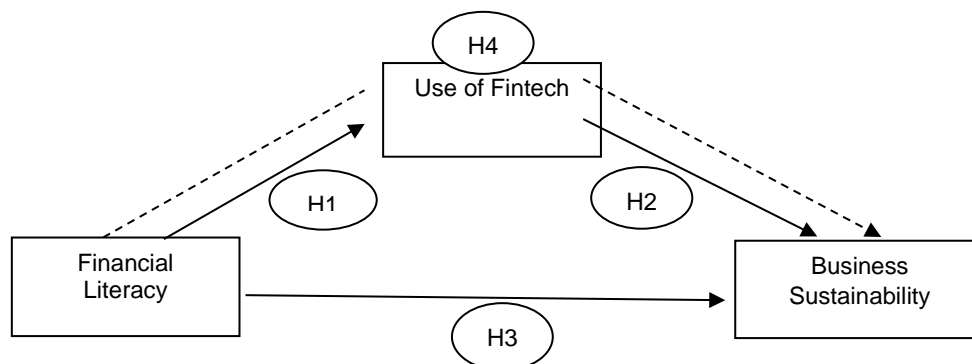
Tegal City is one of the cities whose MSMEs have a fairly rapid development. Since COVID-19, many MSMEs have experienced a decrease in turnover, even to bankruptcy, making it difficult to maintain business sustainability. The problem that often occurs so far is that most MSME owners experience difficulties in financial management due to the low understanding of the level of financial literacy owned by MSME owners. This can be seen from the number of MSME owners who still manage their businesses as they are without financial records so that the exact benefits obtained are unknown. In addition, MSME owners are also still minimal who apply *financial technology*, especially in managing their financial transactions. Many MSMEs are still hesitant in utilizing *fintech* which should make it easier for MSME owners to transact so that it is more effective and efficient (Wardani & Darmawan, 2020). The more social media used by the community, the more online loan services are offered by offering many conveniences. One of the facilities offered to the community is that there is no survey process, especially for illegal borrowers in the Tegal City area. This must be watched out for because of the many complaints from the public about terror and intimidation carried out by illegal borrowers. In 2019, OJK Tegal received 26 complaints about illegal *fintech*, especially borrowing. If many MSMEs are affected by illegal borrowing, it will have an impact on their business sustainability. Businesses that have been built can experience many problems. Thus, it indicates the need to improve financial literacy so that it can maintain business sustainability. Based on this description, the researcher aims to examine the influence of financial literacy on the application of *fintech* and its impact on the sustainability of MSME businesses.

Knowledge based view theory explains in the company that the most important and strategic resource is knowledge. This is because with knowledge, the company will be able to increase the effectiveness and efficiency of resources so that the company's performance will increase (Ngatno, 2014). In addition, with knowledge, companies will also be able to innovate optimally. KBV theory posits that the competitive advantage of a company lies in their ability to collect, coordinate, and combine

knowledge. The knowledge that exists in the company is usually found in human resources, technology, and systems owned by the company.

Technology Acceptance Model (TAM) is known as one of the models designed to explain the factors that can affect the acceptance of the use of computer technology. The influencing factors according to TAM in the use of technology are the perception of expediency (*Perceived Usefulness*) and the perception of ease of use (*Perceived Ease of Use*).

Figure 1 Research Model



Financial literacy is needed, especially by MSME owners. MSME owners are considered necessary to have a good financial concept (Hijir, 2022). This is because MSME owners manage funds for their business operations and funds for their personal interests. This must be done carefully because if done carefully, it will be difficult to record business finances. The TAM model describes the perception of users will be able to determine the attitudes carried out by technology users. In addition, the TAM model also explains the convenience and benefits that can be felt by technology users.

When MSME owners have better financial literacy, it will make it easier to manage their finances. In addition, to develop their business, MSME owners can be done by utilizing technology to the fullest. The rapid advancement of technology in the financial sector can change the culture, especially in the business environment and can provide many innovations related to the type of financial services digitally. The availability of advanced financial service features in financial applications provides convenience and comfort for technology users. The presence of *fintech* in the community provides a lot of convenience in transactions so that people feel more practical and efficient. It aims to maximize financial services to accelerate transactions for the use of technology. The number of applications about technology-based payment services that have sprung up with very diverse types requires MSME owners to need more and more financial literacy. The existence of good financial knowledge possessed by MSME owners should be able to facilitate financial transactions so that their business activities will be more effective and efficient. The results of this study are in accordance with previous research by Hijir (2022), Mudrikah (2021), Kusuma (2019), Ainiyah & Yuliana (2022) which showed that there was a positive influence of financial literacy on the use of fintech.

H₁ : Financial Literacy Positively Affects Financial Technology

In the current era of digitalization, business sustainability is closely related to *financial technology*. *Knowledge based view theory* explains that knowledge is a major factor in the competitive advantage of a company. One of them is technology. The emergence of *fintech* is one of the service innovations in the financial sector that is an option for the community. This is reflected in MSME owners who have started to transact digitally (non-cash) whose payments were initially made manually. Rapid technological changes in today's business environment, companies that can maintain business sustainability are companies that can adapt to changes by being able to adopt the presence of technology, especially *financial technology*. The emergence of *fintech* in the financial sector plays a role in the performance and sustainability of MSME businesses. *Fintech* provides convenience for its users because it can eliminate limited access to banking services. The presence of *financial technology* is not only in capital and investment financing services but also in digital payment services. The ease with which fintech has an impact on the widespread use of *fintech* in transactions effectively and efficiently. This has an impact on the increase in MSME sales transactions, which has an impact on the sustainability of MSMEs. The results of Nurohman et al.'s (2021) research on the role of *fintech* in

MSMEs stated that the presence of a number of *fintechs* contributed to the development of MSMEs. So that the second hypothesis can be concluded, namely:

H₂ : Financial Technology Positively Affects Business Sustainability

KBV theory explains knowledge as an important factor in business success. Good knowledge can affect the improvement of business capacity so that the competitive advantage of a business begins to form. Companies, especially MSMEs, are considered to have knowledge in financial management that is financially literate so that in financial management owners are able to apply risk management practices in an efficient way to gain a competitive position in the market. The importance of financial literacy as a factor that affects business performance and sustainability, especially in financial terms, especially in minimizing risk and making appropriate decisions (Tóth et al., 2021). In addition, financial literacy can also support the capital structure to be more optimal so that business growth also increases. Financial literacy can also increase the effectiveness of MSMEs to provide financial information so that they can also access external finance. So it can be concluded that knowledge contributes to the company so that it can be more flexible to changes in the business environment and it is expected that these changes can also be used as opportunities to get profits. Companies that are financially literate in practice will indirectly manage their finances well so that they can encourage business development and sustainability. Various previous studies Maulana et al., (2022) and Panggabean et al., (2018) show that the importance of financial literacy in maintaining the sustainability of MSMEs. So that the third hypothesis can be concluded, namely:

H₃ : Financial Literacy Has a Positive Effect on Business Sustainability

The company will maintain its business sustainability with the aim of being able to compete in the market. This competition requires MSME owners to be able to create competitive advantages in the midst of a dynamic and fluctuating business environment. Competitive advantage can be optimized if someone has good financial literacy skills so that it has an impact on better business sustainability as well. In addition, with good financial literacy, it can also provide wise and appropriate financial decisions so that the performance of MSMEs also increases. The slow development of MSMEs is caused by the lack of financial literacy. MSME owners need financial literacy skills in order to choose financial service products as needed. In addition, in today's digital era, MSME owners are required to be able to manage their records based on technology and be able to adapt to utilizing technology for all their financial transactions. The existence of *fintech* provides convenience for all MSME activities so that the use of *financial technology* can make MSME business sustainability increase. So that the third hypothesis can be concluded, namely:

H₄ : Financial Technology is able to mediate the relationship between financial literacy and business sustainability

MATERIAL AND METHOD

This research is field research, the information needed in data collection is an observation method with questionnaires and direct interviews on the object of research to obtain accurate data and information related to financial literacy on MSME financial management in Tegal City. This research is a descriptive research using a quantitative approach with statistical tools in the form of WarpPLS 7.0 (Kock, 2020). The data analysis was carried out using tests: descriptive statistics, outer models consisting of validity tests (*convergent validity* and *discriminant validity*), reliability tests, inner models (structural model testing), and hypothesis tests (*path coefficient* and *pvalue*). The population in this study is MSME business managers in Tegal City. Seeing the many business developments in Tegal City and the limitations of researchers, researchers took research samples with *purposive sampling* techniques, which are sampling techniques based on certain criteria in accordance with the research objectives (Sugiyono, 2017). The criteria for sampling are as follows:

1. MSME actors assisted by Tegal City who already have NIB.
2. MSMEs located in the East Tegal sub-district.
3. MSMEs that have carried out financial literacy and implemented fintech.

Based on the sampling criteria above, the number of samples in this study was 72 MSMEs (DinkopUMKM, 2022).

RESULT AND DISCUSSION

This research respondents are MSMEs in the East Tegal region. Research data collection was carried out by distributing questionnaires to MSME actors directly. The number of respondents was 72 respondents who knew financial literacy and who used *fintech* for business sustainability. The characteristics of the respondents can be seen in table 1 below:

Table 1
Characteristics of Respondents

Characteristic	Total	Percentage
By Age		
20-40 Year	37	51%
40-60 Year	35	49%
By Gender		
Man	14	19%
Woman	58	81%
By Education		
SD	1	1%
SMP	6	8%
SMA	37	51%
Sarjana	28	39%
Based on Old Using Fintech		
1-5 Year		76%
5-10 Year		15%
>10 Year		8%

Source: Processed Data, 2023

The following is a summary of the general description of respondents based on the results of the study:

1. The age of research respondents in the range of 20 to 40 years was 51% and 41 to 60 years old was 49%;
2. All respondents are employees who have knowledge related to financial literacy and use financial technology;
3. 81% of responses were female and the remaining 19% were male;
4. The last education of the respondents was 1% of SD graduates, 8% of SMP graduates, 51% of high school graduates; and 39% Masters.
5. Old UMKM uses fintech 1 s.d 5 years 76%, 5-10 years 15%, and over 10 years 8%.

Validity Testing

The validity test aims to measure the validity or absence of the research instrument so that the results provided are in accordance with its size. There are 2 (two) methods to measure validity testing including convergent validity and discriminant validity.

Convergent Validity

The converget validity test indicator is said to be valid with criteria if the loading factor > 0.5 (Ghozali, 2008).

Table 2
Convergent Validity

Variable	Variable	Loading Factor	Result
Financial Literacy	LK1	0,785	Valid
	LK2	0,724	Valid
	LK3	0,745	Valid
	LK4	0,675	Valid
	LK5	0,651	Valid
	LK6	0,717	Valid
	LK7	0,653	Valid
Fintech	FINT1	0,839	Valid
	FINT2	0,852	Valid
	FINT3	0,834	Valid
	FINT4	0,888	Valid
	FINT5	0,820	Valid
	FINT6	0,769	Valid
	FINT7	0,887	Valid
	FINT8	0,814	Valid
Business Sustainability	KU1	0,619	Valid
	KU2	0,754	Valid
	KU3	0,636	Valid
	KU4	0,833	Valid

Source: WarpPLS Outputs, 2023

The test results in Table 2 can be seen for the magnitude of the loading factor value in each variable as a whole, the value is > 0.5 so that it can be concluded that convergent validity testing is declared acceptable.

Discriminant Validity

Discriminant validity testing has an assessment criterion to be accepted, namely if the cross-loading value on each indicator shows a greater value than other constructs. The magnitude of the cross-loading value in this study can be seen in table 3 below:

Table 3

Discriminant Validity

Variable	Indicator	LK	FINT	KU
Financial Literacy	LK1	(0,785)	(0,188)	(0,456)
	LK2	(0,724)	(0,199)	(0,330)
	LK3	(0,745)	(0,293)	(0,412)
	LK4	(0,675)	(0,292)	(0,202)
	LK5	(0,651)	(0,186)	(0,479)
	LK6	(0,717)	(0,306)	(0,337)
	LK7	(0,653)	(0,487)	(0,432)
Fintech	FINT1	(0,438)	(0,839)	(0,350)
	FINT2	(0,322)	(0,852)	(0,183)
	FINT3	(0,354)	(0,834)	(0,359)
	FINT4	(0,282)	(0,888)	(0,281)
	FINT5	(0,401)	(0,820)	(0,422)
	FINT6	(0,315)	(0,769)	(0,380)
	FINT7	(0,325)	(0,887)	(0,256)
	FINT8	(0,171)	(0,814)	(0,171)
Business Sustainability	KU1	(0,514)	(0,337)	(0,619)
	KU2	(0,322)	(0,181)	(0,754)
	KU3	(0,270)	(0,243)	(0,636)
	KU4	(0,433)	(0,276)	(0,833)

Source: WarpPLS Outputs, 2023

In Table 3 above, it shows that the discriminant validity results for each indicator are good. This can be seen from the value of cross loading in each indicator the value is not lower than the size of other constructs.

Reliability Testing

This test is needed to see how consistent and stable the measurement values are in the research model. The reliability test results can be shown in table 4 below:

Table 4
Reliability Testing

Variable	Cronbach Alpha	Composite Reliability
Financial Literacy	0,834	0,875
Use of Fintech	0,939	0,950
Business Sustainability	0,676	0,806

Source: WarpPLS Outputs, 2023

Based on Table 4 above, it can be concluded that the three variables show reliable results. These results can be shown from the magnitude of the Cronbach alpha value in each variable the value is more than 0.6 and the composite reliability value is more than 0.7.

Structural Model Testing (Inner Model)

This test is commonly referred to as the inner model used to describe the consistency of relationships between latent variables that are used as hypotests in research. The results of the inner model test can be seen in table 5 which is used as the basis for assessing the criteria in each construct, namely the value of the model fit index and quality indices.

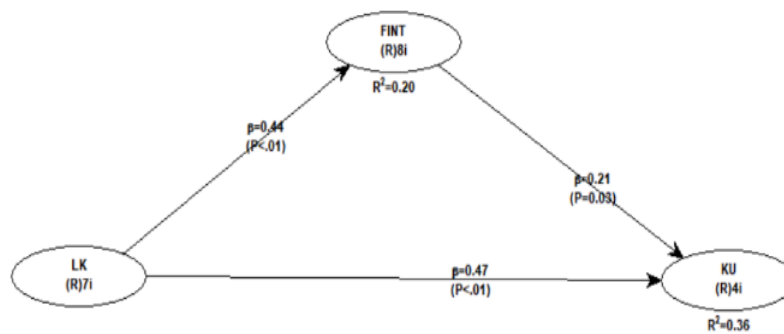
Table 5. Model Fit dan Quality Indices

Indicator	Value	Pvalue	Criteria
APC	0,376	0,001	pvalue < 0,05 = Accepted
ARS	0,279	0,003	
AARS	0,264	0,004	
AVIF	1,281		Accepted < 5, ideal < 3,3
AFVIF	1,388		
GoF	0,40		Accepted if small > 0,1; medium > 0,25; big > 0,36
SPR	1,000		Accepted > 0,7, ideal = 1
RSCR	1,000		> 0,9 = Accepted
SSR	1,000		> 0,7 = Accepted
NLBCDR	1,000		

Source: WarpPLS Outputs, 2023

From the results of structural model testing presented in Table 5 for the value of the fit model index and quality indices have met all criteria. The structural model in this study can be seen as follows:

Figure 2. Structural Model



Hypothesis Testing

Hypothesis testing is needed to see the consistency between the formulation of the hypothesis and the results of the analysis obtained. The results of hypothesis testing can be seen in Table 6 below:

Table 6
Path Coefficient dan P Value

Variable	Path Coefficients	PValue	Criteria
LK → FINT	0,445	0,001	Accepted
FINT → KU	0,212	0,029	Accepted
LK → KU	0,472	0,001	Accepted
LK → FINT → KU	0,054	0,124	Rejected

Source: WarpPLS Outputs, 2023

In table 6 it is concluded that all hypotheses in this study show a positive path coefficient value. That is, there is a unidirectional relationship between these research variables. Furthermore, the p-value shows the influence between constructs with a significance level of 5%, which means that the hypothesis is accepted if the pvalue value is < 0.05.

The influence of financial literacy on the use of MSME financial technology

Based on the results of the analysis, it was found that financial literacy has a positive and significant effect on the use of MSME financial technology. This means that if the understanding of literacy is good enough for MSME owners, the better it will be in the use of financial technology. MSME owners who already have high knowledge tend to be able to apply digital-based financial services because the use of financial technology can provide many benefits to the community in the form of convenience, effectiveness and efficiency. Financial literacy is the main supporting factor for improving business performance and success, especially MSMEs. This is reflected in the number of respondents in Tegal City who already understand about fintech products and many have used P2P lending and digital payments for daily financial transactions. These results are in line with research conducted by Ainiyah & Yuliana, (2022) and Hijir (2022) research which states that financial literacy affects the use of fintech.

The influence of the use of financial technology on the business sustainability of MSMEs

Based on statistical testing, it shows that the use of fintech has a positive effect on the sustainability of MSME businesses in Tegal City. That is, the use of technology, especially financial technology in the financial services sector, can support and support the financial performance of MSMEs so that MSMEs can develop optimally. The presence of financial technology provides solutions for MSMEs that have problems with lack of business capital and difficulties in manual payments so that the difficulties faced by MSMEs can be overcome. Fintech can help MSME owners to get business capital and facilitate transactions that make MSME performance better which has a direct impact on MSME business sustainability which is reflected in MSMEs are already familiar with the use of technology. With the increasing financial knowledge, the use of fintech by the public, especially MSME owners, is increasing in managing their financial transaction needs. Judging from respondents who use the type of financial technology in Tegal City, most digital payments are the type of fintech that is most often used by MSME owners. Transactions that can be done anywhere and anytime because of the convenience provided by application services in the type of financial technology make financial

transactions carried out by MSME owners more optimal. In addition, with the use of fintech, transactions become more effective and efficient so that business sustainability is better. These results are in line with research (Kusuma, 2019) which concludes that fintech affects the sustainability of MSMEs. However, this research is not in line with Maulana et al., (2022) and Budyastuti (2021) which states that there are still few people who use financial technology services because they prefer to transact in cash.

The Effect of Financial Literacy on Business Sustainability

Based on statistical testing, it shows that financial literacy has a positive and significant effect on business sustainability. These results are in accordance with the theory of Knowledge based view (KBV) which views that knowledge plays an important role in creating sustainable performance so that in this study business sustainability is strongly influenced by the level of financial literacy of MSME actors. Knowledge and ability to manage finances are very helpful in improving business sustainability because the daily operational transaction process will be more stable. Financial literacy can ensure the ability of MSMEs to generate profits to maintain business sustainability because it relates to accuracy in decision making. This is in line with the research of Ardila et al., (2021), Maulana et al., (2022), and Panggabean et al., (2018). Meanwhile, different results were found by Budyastuti, (2021) and Nurohman et al., (2021) which showed that the relationship between financial literacy had no effect on the sustainability of MSME businesses.

The use of financial technology mediates the influence of financial literacy on business sustainability

Based on the test results, it shows that the use of financial technology is unable to mediate the influence of financial literacy on the business sustainability of MSMEs in Tegal City. This means that although the level of financial literacy of business owners is good enough which has an impact on managing their business so that they can make the right business decisions, the use of financial technology has not been so optimal. If a person is good enough in his financial literacy knowledge, then he tends to be wiser in managing his finances and his performance will be achieved optimally. The business sustainability of MSMEs in Tegal City is quite good in carrying out their business operations. This is reflected in the number of MSMEs that have been operating for quite a long time, namely the length of business above five years. There are even MSMEs whose business duration is more than ten years. This is because it is quite good to understand respondents or MSME owners about the concept of managing their finances.

However, the use of financial technology is still not optimal for MSME owners in Tegal City. This is indicated by the majority of respondents only utilizing the type of fintech in the form of digital payments. This is due to the lack of knowledge possessed by MSME owners about the use of technology (not yet familiar with using fintech). MSME owners are still hesitant to take advantage of the use of financial technology, especially the type of fintech for funding and investment. For the types of fintech digital payments that are often used, namely Go-Pay and OVO. With the existence of financial technology services, especially to help with daily transactions, MSME owners have not been able to take advantage of these conveniences. MSME owners are more concerned about the security of using fintech because now there are many frauds that occur. This result is in line with Maulana et al., (2022) which states that not all MSMEs are familiar with the use of technology in Magelang Regency and City.

CONCLUSIONS AND SUGGESTIONS

Based on the results of the analysis of research results, conclusions can be obtained:

Business sustainability is strongly influenced by financial literacy factors and the use of financial technology. MSMEs must be able to adapt to technological changes. The use of fintech can facilitate transactions for MSME owners anywhere and anytime. The benefits of using fintech are supported by a good understanding of financial literacy.

The findings in this study are that understanding the financial literacy of MSME owners can improve the sustainability of MSME businesses. This is reflected in making wise decisions in managing their business so that it has an impact on the sustainability of their business. In addition, the type of fintech used by MSME owners can also support business sustainability because it can facilitate transactions so that the number of sales increases. Although the most widely used only for payment transactions is the type of digital payment. However, the use of fintech is not all types of fintech used by MSME owners. Most MSME owners only use fintech for payments, while investing and increasing capital has not been so optimal. This is because MSME owners are still hesitant in adopting fintech, especially online loan services because of the rampant fraud that occurs.

The implications of this study, the first is for fintech MSMEs to facilitate financial transactions so that it should be more optimal in utilizing other types of fintech, not only digital payments. Second, for the Regional Government and OJK, they can create work programs related to the socialization of financial literacy and fintech, especially those related to the type of funding (online loans) to the public so that MSME owners do not hesitate to take advantage of fintech services.

The limitation of this study is that the number of respondents in this study is only in the East Tegal region so that the number of samples is still small. In addition, the variables used to measure business sustainability are only financial literacy and financial technology. For future research, you should add other variables such as financial inclusion.

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