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Financial Technology, Financial Literacy, and MSME Performance in Garut City

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ABSTRACT

The government also supports this by providing access, such as in Garut City through Laku Pandai agents, digital wallets, and legal online loans to encourage local economic growth. Moreover, generation Z, who have a very high understanding and application of financial literacy, influences the performance of MSMEs, particularly in terms of ease of payment using financial technology. Currently, financial technology service providers almost meet the needs of MSMEs in managing finances, such as digital financial reports, payment technology, and online loans. Thus, by distributing questionnaires to 385 MSMEs in Garut City, this research will examine the influence on MSMEs' performance. The data is then processed using SEM-PLS. The performance of MSMEs is known to be positively and significantly impacted by financial technology and financial literacy, and this impact Financial technology has a positive and considerable impact on financial literacy, and financial literacy in turn has a good and large influence on financial technology's impact on MSMEs' performance. According to this research, additional regional governments should keep enhancing financial literacy through partnerships with other parties, training, and teaching. financial technology service providers as a means of encouraging MSMEs to perform better and creating additional job opportunities.

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INTRODUCTION

In the Society 5.0 era, people are expected to address social challenges by leveraging technological innovations developed during the Fourth Industrial Revolution. Technology has contributed to advances in human life, particularly in terms of knowledge, business opportunities, and production process efficiency (Dewi & Agarta, 2023). It has also provided convenience for Micro, Small, and Medium Enterprises (MSMEs) in conducting their business activities (Bareksa, 2020), particularly in financial management through digital financial reporting, digital payment systems, and online lending services (Fajar & Larasati, 2021a). These developments are supported by the Garut City Government through the provision of branchless banking agents (Laku Pandai), digital wallets, and online lending services to promote local economic growth. Government support for the adoption of financial technology has significantly contributed to the development of MSMEs, with their number increasing by approximately 30% between 2020 and 2023, reaching 28,000 MSMEs in Garut City (Jabar.bps.go.id, 2024).

Generation Z in Garut City demonstrates a high level of financial literacy in terms of both understanding and practical application (Wahyuningsih et al., 2024), which has a considerable influence on MSME financial performance (Tetikriyani, 2024). Given that financial technology facilitates various activities, including digital payments, it has become an integral component of MSME operations and can influence MSME performance, both directly and indirectly through the mediation of financial literacy (Al-Amudi et al., 2024; Azis & Effendy, 2024; Lontchi et al., 2023; Sari, 2024). Financial literacy has also been found to influence MSME performance (Amaliani & Muliyani, 2024; Azis & Effendy, 2024; Lontchi et al., 2023; Sari, 2024). Nevertheless, some studies have reported different findings, indicating that financial literacy does not always have a significant effect on MSME performance (Al-Amudi et al., 2024; Wulandari & Fitriyah, 2024). This issue is particularly

important because financial literacy is essential for MSMEs, which serve as key contributors to national economic development by absorbing labor, reducing unemployment, and helping to prevent social problems, including crime.

The use of technology, particularly financial technology, supports MSMEs in their business activities by automating various organizational and operational processes. However, MSMEs cannot operate efficiently without adequate financial knowledge and competencies. Therefore, this study is expected to provide valuable insights for business decision-making among financial service providers, support the government's efforts to expand financial literacy programs to other satellite cities across Indonesia, and inform local government policymaking regarding the implementation of financial technology among MSMEs. Accordingly, this study aims to analyze and examine the effect of financial technology on MSME performance, determine whether this relationship is mediated by financial literacy, and investigate the effect of financial literacy on the financial performance of MSMEs in Garut City.

RESEARCH METHODS

The quantitative method refers to a research approach applied to the population or sample under investigation. The sampling process is conducted randomly, and researchers are required to use research instruments to collect data. Furthermore, quantitative and statistical data analysis is employed to test the established hypotheses. To maintain the independent and objective nature of quantitative research, a clear distinction must be maintained between the researcher and the research subjects. Since questionnaires are used as the primary data collection instrument, quantitative researchers generally do not have direct knowledge of the respondents who complete the questionnaires (Sugiyono, 2022). In terms of researcher involvement, this study was conducted in a natural or ordinary setting without any intervention from the researcher. This means that the research subjects were observed while carrying out their routine activities naturally, without researcher interference. Furthermore, cross-sectional data refer to data collected to describe a particular phenomenon at a specific point in time (Ansori & Iswati, 2020). Since the population size was known, the authors employed a simple random sampling technique to select the research respondents. The sample size was determined using Slovin's formula with a 5% margin of error. The sample size calculation for this study was as follows:

$$n = \frac{69,365}{1 + (69,365 \times 0.05^2)}$$

The calculation indicates that 385 respondents were required for this study, obtained by rounding up the calculated sample size of 384.772 to 385 respondents (Kurniawan, 2019).

THEORETICAL STUDIES

Financial Technology Has an Effect on MSME Performance

Fintech, a term derived from the words finance and technology, refers to companies that combine innovative business models and technology to create, enhance, and disrupt financial services by providing clients with comprehensive financial technology solutions (Zhao et al., 2024). In addition, advanced technologies such as big data and cloud computing play an important role in reducing information asymmetry between traditional financial institutions and MSMEs. The availability of financial technology effectively alleviates financing constraints faced by MSMEs and improves their business performance (Li et al., 2024). Currently, many financial technology companies focus primarily on payment applications and digital wallets rather than other products, such as nsurtech, wealth and investment management, lending, remittances, Islamic fintech, and other financial services (Saad et al., 2019). Consequently, financial technology enables both companies and customers to modify, improve, and automate the delivery of financial services (Asl & Roubaud, 2024). Financial technology therefore provides solutions for MSMEs by automating payment transactions and digital wallet services. Previous studies have demonstrated that financial technology has a positive and significant effect on MSME performance (Al-Amudi et al., 2024; Azis & Effendy, 2024; Lontchi et al., 2023). Accordingly, the following hypothesis is proposed:

H1: Financial technology has a positive effect on MSME performance in Garut City.

Financial Literacy Has an Effect on MSME Performance

Financial literacy enables MSMEs to interact effectively with financial technology. Higher levels of financial literacy can lead to more effective utilization of financial technology (Lidiawan, 2021). Financial literacy is closely associated with financial education (Sudakova, 2018), which encompasses a set of competencies that empower individuals to make informed and effective financial decisions to improve their well-being (Maulana, 2021). Therefore, MSMEs should continuously improve their financial literacy through enhanced financial education (Panos & Wilson, 2020).

Financial literacy has a substantial influence on MSME financial performance and sustainable supply chains. Without adequate financial knowledge, particularly concerning sound financial management practices, as well as sufficient access to financial services, MSMEs may struggle to achieve optimal business performance (Toni et al., 2014). Financial literacy also plays an important role in understanding the overall performance of MSMEs (Graña-Alvarez et al., 2024) and contributes to strengthening a country's financial sector and building public trust (Wahyuningsih et al., 2024). Accordingly, financial literacy is considered to have a positive and significant effect on MSME performance (Azis & Effendy, 2024; Tatikriyani, 2024). Therefore, the following hypothesis is proposed:
H2: Financial literacy has a positive effect on MSME performance in Garut City.

Financial Technology Has an Effect on Financial Literacy

The use of financial technology varies among individuals according to their respective characteristics and behaviors. Higher levels of financial literacy are positively associated with the likelihood of adopting financial technology. Individuals with better financial literacy also tend to use financial technology more frequently (Yoshino et al., 2020). This suggests that financial technology is positively and significantly associated with financial literacy (Lontchi et al., 2023). Accordingly, the following hypothesis is proposed:
H3: Financial technology has a positive effect on financial literacy in Garut City.

The Mediating Role of Financial Literacy in the Relationship Between Financial Technology and MSME Performance

Financial literacy mediates the relationship between financial technology and MSME performance, with a positive and significant mediating effect (Lontchi et al., 2023). However, an alternative perspective suggests that financial literacy does not necessarily strengthen the effect of financial technology on MSME performance, as MSMEs may place greater emphasis on adopting and developing financial technology innovations than on improving their financial literacy (Al-Amudi et al., 2024). MSME performance can be assessed through innovation, proactiveness, and risk-taking in business strategies implemented by managers and business decision-makers. To continuously improve MSME performance, businesses should emphasize employee learning and encourage innovative behavior, thereby helping them achieve competitive advantages and maintain business sustainability (Meekaewkunchorn et al., 2021).

Theoretically, financial technology can improve MSME performance by expanding access to financing and reducing financing costs. It can also effectively reduce information asymmetry between banks and MSMEs while improving the efficiency of traditional financial services, thereby increasing credit availability (Li et al., 2024). MSME performance can be measured using indicators such as Return on Assets (ROA) or Return on Costs (ROC). Regular performance measurement is essential to determine whether business decisions have been implemented effectively and to ensure the long-term sustainability of business operations. Accordingly, the following hypothesis is proposed:
H4: Financial literacy mediates the effect of financial technology on MSME performance in Garut City.

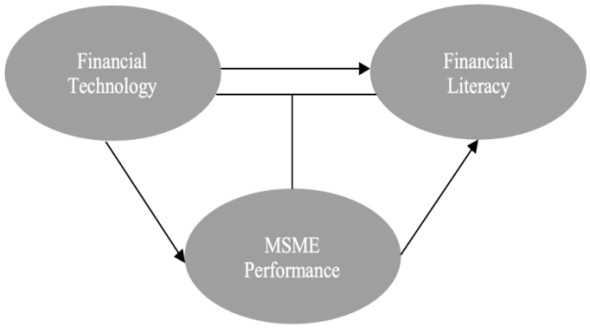


Figure 1. Conceptual Framework

RESEARCH AND DISCUSSION

Respondent Characteristics

The respondents in this study were MSME owners operating in Garut City. The questionnaire was distributed through Google Forms and shared via social media platforms, including WhatsApp, Instagram, and LINE, to collect responses. The first question in the questionnaire served as a screening question to determine whether respondents were residents of Garut City and owned MSMEs in the area. The subsequent questions addressed respondents' monthly income, age, and gender in relation to their MSME business activities. Respondents were then asked to provide demographic information and answer questions concerning financial technology, financial literacy, and MSME performance.

Table 1. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
Gender	Male	197	51.2%
	Female	188	48.8%
Age	Under 18 years	6	1.6%
	19–25 years	148	38.4%
	Above 26 years	231	60.0%
Income	Below IDR 1,000,000	0	0%
	IDR 1,001,000–IDR 3,000,000	40	10.4%
	Above IDR 3,001,000	344	89.4%

Note: The frequencies and percentages are presented based on the figures provided in the original data. Some figures require verification because the age and income frequencies do not consistently add up to the total sample of 385 respondents. The questionnaire was completed by 197 male respondents, representing 51.2% of the total sample, and 188 female respondents, accounting for the remaining 48.8%. Regarding age distribution, six respondents (1.6%) were under 18 years old, 148 respondents (38.4%) were between 19 and 25 years old, and 231 respondents (60.0%) were above 26 years old. Thus, respondents aged over 26 constituted the largest age group in this study. In terms of monthly income, none of the respondents (0%) reported earning less than IDR 1,000,000, while 40 respondents (10.4%) reported monthly incomes ranging from IDR 1,001,000 to IDR 3,000,000. Meanwhile, 344 respondents (89.4%) reported monthly incomes exceeding IDR 3,001,000.

Measurement Model Assessment (Outer Model)

Convergent validity is an essential component of the measurement model, which is also known as confirmatory factor analysis (CFA) in covariance-based structural equation modeling (CB-SEM) and the outer model in partial least squares structural equation modeling (PLS-SEM) (Mei & Rohmawati, 2021). For a reflective measurement model to demonstrate adequate convergent validity, two criteria should generally be satisfied: (1) the factor loading should exceed 0.70, and (2) the p-value should be statistically significant ($p < 0.05$) (Fajar & Larasati, 2021b). However, in certain circumstances, particularly when using newly developed questionnaires, the requirement for factor loadings above 0.70 may not always be achieved. Therefore, indicators with factor loadings ranging from 0.40 to 0.70 may still be considered for retention (Kurniawan, 2019).

Indicators with factor loadings below 0.40 are generally recommended for removal from the measurement model. Meanwhile, for indicators with loadings between 0.40 and 0.70, researchers should evaluate the effects of their removal on composite reliability and average variance extracted (AVE). If removing an indicator increases composite reliability and AVE to levels above the recommended thresholds, its elimination may be considered (Purwantini & Anisa, 2018). The recommended threshold for AVE is 0.50, while the minimum acceptable value for composite reliability is 0.70. Another important consideration when removing indicators is the potential impact on the construct's content validity. Indicators with relatively low factor loadings may sometimes be retained because they contribute meaningfully to the overall content validity of the construct (Sari, 2024).

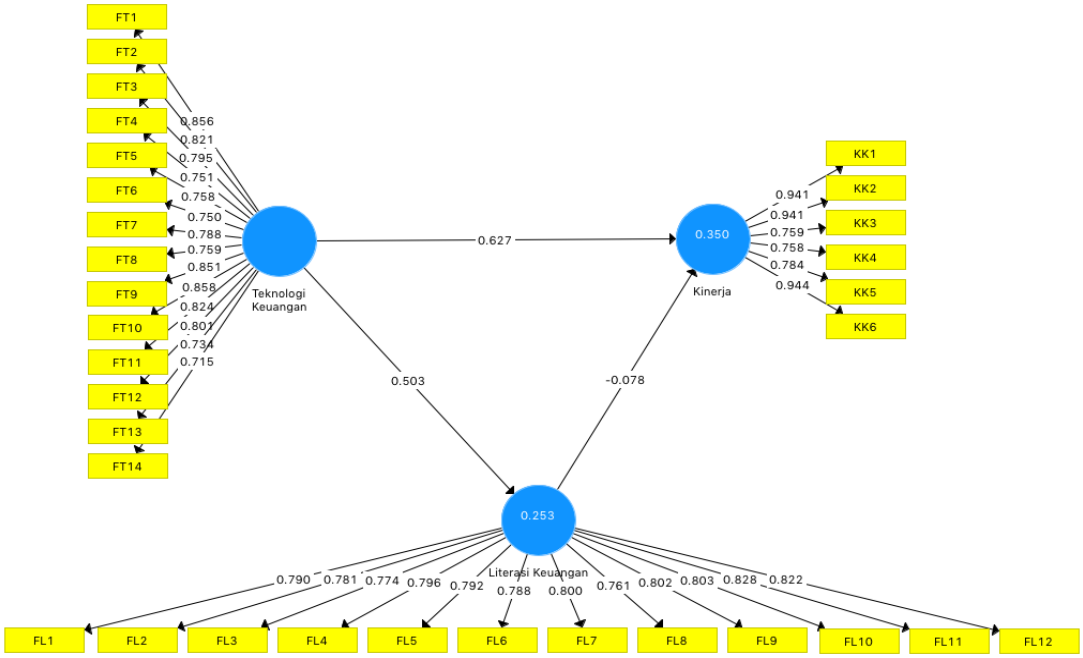


Figure 2. Outer Model

Convergent Validity

Convergent validity is an essential component of the measurement model. In covariance-based structural equation modeling (CB-SEM), it is assessed through confirmatory factor analysis (CFA), whereas in partial least squares structural equation modeling (PLS-SEM), it is evaluated through the outer model (Tetikriyani, 2024). Two criteria are generally used to determine whether the outer model (measurement model) satisfies the requirements for convergent validity, as highlighted by Wahyuningsih et al. (2024): (1) factor loadings should preferably exceed 0.70, and (2) the p-value should be statistically significant ($p < 0.05$). The factor loading values obtained from the analysis using SmartPLS software (version 3.2.9) are presented in Table 2.

Table 2. Factor Loading Values

Variable	Indicator	Factor Loading	Conclusion
Financial Technology	FT1 ← FT	0.856	Valid
	FT2 ← FT	0.821	Valid
	FT3 ← FT	0.795	Valid
	FT4 ← FT	0.751	Valid
	FT5 ← FT	0.758	Valid
	FT6 ← FT	0.750	Valid
	FT7 ← FT	0.788	Valid
	FT8 ← FT	0.759	Valid
	FT9 ← FT	0.851	Valid
	FT10 ← FT	0.858	Valid
	FT11 ← FT	0.824	Valid
	FT12 ← FT	0.801	Valid
	FT13 ← FT	0.734	Valid
	FT14 ← FT	0.715	Valid
Financial Literacy	FL1 ← FL	0.790	Valid
	FL2 ← FL	0.781	Valid
	FL3 ← FL	0.774	Valid
	FL4 ← FL	0.796	Valid
	FL5 ← FL	0.792	Valid
	FL6 ← FL	0.788	Valid
	FL7 ← FL	0.800	Valid
	FL8 ← FL	0.761	Valid
	FL9 ← FL	0.802	Valid
	FL10 ← FL	0.803	Valid

	FL11 ← FL	0.828	Valid
	FL12 ← FL	0.822	Valid
MSME Performance	KK1 ← KK	0.941	Valid
	KK2 ← KK	0.941	Valid
	KK3 ← KK	0.759	Valid
	KK4 ← KK	0.758	Valid
	KK5 ← KK	0.784	Valid
	KK6 ← KK	0.944	Valid

Source: Processed Data (2024).

According to Ghozali (2021), the outer model represents the measurement model in PLS-SEM, while confirmatory factor analysis (CFA) is used to assess measurement validity in covariance-based SEM. Two criteria are applied to determine whether the outer model meets the requirements for convergent validity, as also supported by Mira (2020): (1) factor loadings should preferably be greater than 0.70, and (2) the p-value should be statistically significant ($p < 0.05$). The results of the factor loading assessment using SmartPLS software (version 3.2.9) are presented in Table 2.

Table 3. Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
MSME Performance	0.738
Financial Literacy	0.632
Financial Technology	0.626

Source: Processed Data (2024).

As shown in Table 3, the AVE values for all variables exceed the recommended threshold of 0.50, indicating that the measurement model satisfies the requirements for convergent validity. These results demonstrate that each construct explains more than 50% of the variance in its respective indicators. Therefore, based on the SmartPLS analysis, all indicators used to measure the research variables can be considered valid in terms of convergent validity.

Table 4. Fornell–Larcker Criterion

Variable	KK	FL	FT
KK	0.859		
FL	0.238	0.795	
FT	0.588	0.503	0.791

Source: Processed Data (2024).

Table 4 presents the results of the Fornell–Larcker criterion for assessing discriminant validity. According to this criterion, discriminant validity is established when the square root of the AVE for each construct is greater than its correlations with other latent variables. Furthermore, the cross-loading assessment requires that each indicator has a higher loading on its associated construct than on other constructs (Hilmawati & Kusumaningtias, 2021). The results indicate that the square root of the AVE for each variable exceeds its correlations with the other constructs. Specifically, the values are 0.859 for MSME Performance (KK), 0.795 for Financial Literacy (FL), and 0.791 for Financial Technology (FT). These findings indicate that the measurement model meets the requirements for discriminant validity. Consequently, the three constructs demonstrate adequate empirical distinction from one another.

Table 5. Cross-Loading Values

	KK	FL	FT
KK1	0,941	0,176	0,518
KK2	0,941	0,173	0,513
KK3	0,759	0,225	0,467
KK4	0,758	0,212	0,500
KK5	0,784	0,254	0,506
KK6	0,944	0,187	0,515
FL1	0,130	0,790	0,416
FL2	0,123	0,781	0,396
FL3	0,122	0,774	0,390
FL4	0,232	0,796	0,418
Lantai 5	0,208	0,792	0,406
FL6	0,209	0,788	0,401
FL7	0,215	0,800	0,402
FL8	0,188	0,761	0,362

FL9	0,226	0,802	0,423
FL10	0,232	0,803	0,435
FL11	0,189	0,828	0,379
FL12	0,166	0,822	0,355
FT1	0,462	0,403	0,856
FT2	0,477	0,441	0,821
FT3	0,471	0,385	0,795
FT4	0,460	0,357	0,751
FT5	0,458	0,376	0,758
FT6	0,450	0,344	0,750
FT7	0,502	0,389	0,788
FT8	0,447	0,364	0,759
FT9	0,468	0,407	0,851
FT10	0,474	0,421	0,858
FT11	0,478	0,448	0,824
FT12	0,476	0,386	0,801
FT13	0,426	0,453	0,734
FT14	0,455	0,384	0,715

The results presented in Table 5 indicate that each indicator has a higher loading value on its respective latent variable than on the other latent variables. This suggests that the indicators adequately represent their corresponding constructs. Since the loading values of each indicator are higher for their associated latent constructs than for other constructs, the measurement model demonstrates satisfactory discriminant validity. Therefore, the constructs examined in this study meet the established discriminant validity criteria, indicating that each construct is empirically distinct from the others based on the SmartPLS analysis.

Table 6. Heterotrait–Monotrait Ratio (HTMT)

Variable	K	L	T
KK	—		
FL	0.252	—	
FT	0.627	0.527	—

Source: Processed Data (2024).

As presented in Table 6, all HTMT values in this study are below the recommended threshold of 0.90, indicating that the measurement model satisfies the requirements for discriminant validity. These findings further confirm that the constructs of MSME Performance (KK), Financial Literacy (FL), and Financial Technology (FT) are sufficiently distinct from one another.

Table 7. Cronbach's Alpha and Composite Reliability Results

Variable	Cronbach's Alpha	Composite Reliability (rho_c)
MSME Performance	0.926	0.944
Financial Literacy	0.947	0.954
Financial Technology	0.954	0.959

Source: Processed Data (2024).

As shown in Table 7, the reliability of reflective measurement constructs can be assessed using two primary measures: Cronbach's alpha and composite reliability. These measures are used to evaluate the internal consistency of indicators within each construct. According to the commonly accepted rule of thumb, composite reliability values above 0.70 are considered acceptable for confirmatory research, while values above 0.60 may still be acceptable for exploratory studies. The results demonstrate that all constructs have Cronbach's alpha values exceeding 0.90 and composite reliability values above 0.90. Specifically, MSME Performance records values of 0.926 and 0.944, Financial Literacy records 0.947 and 0.954, and Financial Technology records 0.954 and 0.959, respectively. These findings indicate that all constructs exhibit excellent internal consistency and satisfy the recommended reliability criteria. Therefore, the measurement model can be considered reliable for subsequent structural model analysis.

Structural Model Assessment (Inner Model)

Structural model assessment, also referred to as inner model assessment, is conducted to explain the relationships among latent variables based on the underlying substantive theory (Ghozali, 2021). The inner model can be evaluated using several statistical measures, including the coefficient of determination (R^2) for endogenous constructs, effect size (f^2) for latent variable predictors, predictive relevance (Q^2), t-statistics, and the significance of structural path coefficients (Ghozali, 2021). These assessment procedures are intended to

determine the explanatory and predictive capabilities of the proposed research model, as well as the significance of the hypothesized relationships among the variables. The structural model for this study is presented in the following figure. The analysis was conducted using SmartPLS software (version 3.2.9), with bootstrapping procedures employed to obtain the t-statistics and path coefficient values.

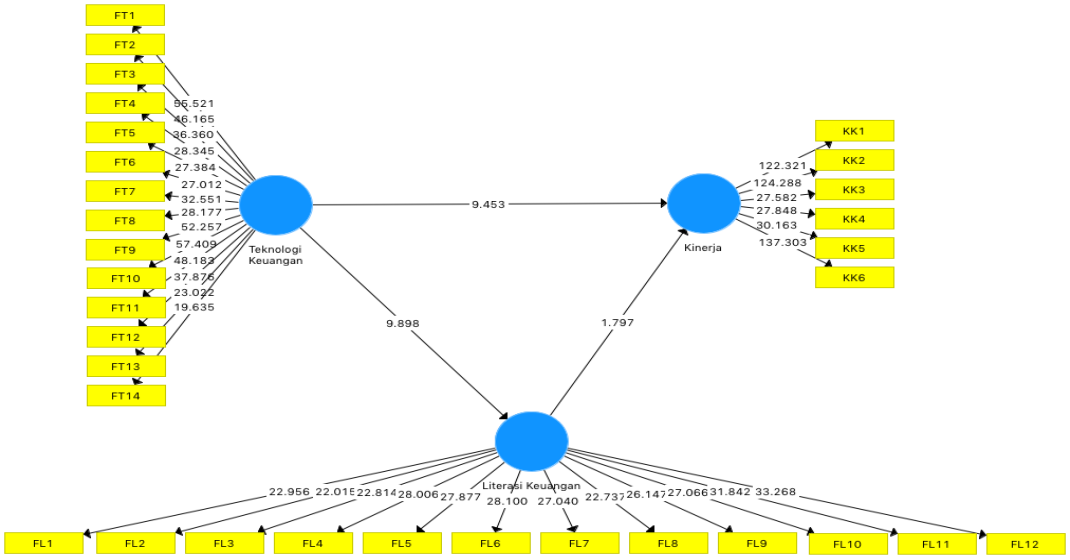


Figure 3. Inner Model

Table 8. R-Square Results

Variable	R-Square
MSME Performance	0.350
Financial Literacy	0.253

Source: Processed Data (2024)

As presented in Table 8, the predictive capability of a research model improves as its R-square ((R^2)) value increases (Amaliani & Muliyani, 2024). According to Ghozali (2021), the R-square values of 0.67, 0.33, and 0.19 for endogenous latent variables in a structural model indicate substantial, moderate, and weak explanatory power, respectively. Based on these criteria, the R-square value for financial literacy (0.253) indicates weak explanatory power, whereas the value for MSME performance (0.350) indicates moderate explanatory power.

Table 9. F-Square Results

Relationship	F-Square
FL → KK	0.007
FT → KK	0.451
FT → FL	0.339

Source: Processed Data (2024)

Table 9 presents the results of the inner model assessment. Specifically, Ghozali (2021) states that f-square values of 0.02, 0.15, and 0.35 indicate small, medium, and large effect sizes, respectively, for the relationships between latent variables and their dependent variables. The effect of financial literacy on MSME performance has an f-square value of 0.007, indicating a negligible effect. Meanwhile, the effect of financial technology on MSME performance is classified as large, with an f-square value of 0.451. The effect of financial technology on financial literacy is also substantial, with an f-square value of 0.339, which is close to the threshold for a large effect.

Table 10. Q-Square Results

Variable	Q^2 (= 1 − SSE/SSO)
MSME Performance	0.252
Financial Literacy	0.158

Source: Processed Data (2024)

Table 10 shows that predictive relevance, as measured by Q^2, can also be used to evaluate the structural model. A Q^2 value greater than zero indicates that the model has predictive relevance, whereas a value below zero indicates a lack of predictive relevance (Ghozali, 2021). The Q-square value for MSME performance is 0.252, which is greater than zero, indicating that financial technology and financial literacy have predictive relevance for MSME performance. Similarly, the Q-square value for financial literacy is 0.158, also greater than zero, suggesting that financial technology has predictive relevance for financial literacy.

Table 11. Hypothesis Testing Results

Hypothesis	Relationship	Path Coefficient	T-Statistic (|O/STDEV|)	P-Value	Conclusion
HAI	FT -> KK	0,627	9.410	0,000	Accepted
H2	FT -> FL	0,502	9.402	0,000	Accepted
H3	FL -> KK	-0,078	1.947	0,026	Accepted
H4	FL -> FT -> KK	-0,039	1.879	0,030	Accepted

Source: Processed Data (2024)

The Effect of Financial Technology on MSME Performance

The hypothesis testing results indicate that financial technology has a positive and significant effect on MSME performance. This is evidenced by a t-statistic of 9.410, which exceeds the critical value of 1.65, and a p-value of 0.000, which is below the significance threshold of 0.05. Therefore, the hypothesis that financial technology positively affects MSME performance is accepted. Purwantini and Anisa (2018) focused on how technological capabilities connect digital transformation systems with various forms of innovation and how the adoption of modern technologies contributes to more effective organizational activities. Their findings indicate that digital technology provides substantial support for innovative transformation strategies and facilitates more effective organizational processes, ultimately influencing organizational performance. Furthermore, their findings suggest that the adoption of virtual payment systems, as part of financial technology development, significantly improves MSME performance.

The Effect of Financial Technology on Financial Literacy

The hypothesis testing results reveal a significant relationship between financial technology and financial literacy. The t-statistic of 9.402 exceeds the critical value of 1.65, while the p-value of 0.000 is below the significance threshold of 0.05. These results indicate that financial technology has a positive and significant effect on financial literacy. Therefore, the hypothesis is accepted. According to Morgan and Trinh (2020), in their study of financial innovation and financial literacy in Laos, higher levels of financial literacy can increase individuals' awareness and understanding of financial technology products. Their findings indicate that individuals with greater financial knowledge and technological awareness are more likely to adopt financial innovations, particularly electronic money. This highlights the importance of understanding the role of financial technology in financial management. In this context, financial literacy encompasses the knowledge and competencies required to understand and use financial technology effectively.

The Effect of Financial Literacy on MSME Performance

The hypothesis testing results indicate that financial literacy has a negative relationship with MSME performance, as reflected by the path coefficient of −0.078. The t-statistic of 1.947 exceeds the critical value of 1.65, while the reported p-value of 0.026 is below the significance threshold of 0.05. Based on the reported significance criteria, the hypothesis is accepted. However, the negative path coefficient indicates that the relationship is negative rather than positive. Thus, the findings suggest that financial literacy does not have a positive effect on MSME performance in this model.

The Mediating Role of Financial Literacy in the Effect of Financial Technology on MSME Performance

The hypothesis testing results indicate that the mediating effect of financial literacy in the relationship between financial technology and MSME performance is statistically significant based on the reported values. The t-statistic of 1.879 exceeds the critical value of 1.65, while the p-value of 0.030 is below the significance threshold of 0.05. Therefore, the mediation hypothesis is accepted according to the reported testing criteria. These findings suggest that financial literacy plays an intervening role in the relationship between financial technology and MSME performance. Al-Amudi et al. (2024) argue that financial knowledge can contribute to improved organizational performance, particularly when business actors can readily access financial support and make appropriate adjustments to their financial resources. Chepngetich also highlights the relationship between financial management and the implementation of business plans. Financial information enables business actors to evaluate the consequences of previous decisions and assess their organization's current financial condition based on its operational activities. Similarly, Dahmen and Rodriguez (2014) examined the

relationship between financial literacy and business performance, building on earlier findings concerning the importance of financial competencies in business management.

CONCLUSION

Financial technology has a substantial and positive effect on financial literacy. Financial literacy also has a positive and significant effect on MSME performance, as individuals with better financial management skills tend to make greater use of financial technology. Furthermore, financial literacy has a positive and significant mediating effect on the relationship between financial technology and MSME performance, indicating that financial knowledge and the effective use of financial technology can contribute to improved MSME performance. Given that financial literacy can support the growth and success of MSMEs, this study emphasizes the importance of the relationship between financial literacy and MSME performance. Overall, financial literacy plays a crucial role in strengthening the financial management and business performance of MSMEs.

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