

The Impact of Financial Inclusion on MSME Growth in Developing Countries: A Regional Comparative Study

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ABSTRACT

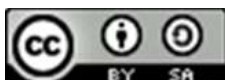
This study aims to analyze the impact of financial inclusion on MSME growth in Bali, Indonesia, and Malaysia. Using Structural Equation Modeling (SEM), the study examines the relationship between financial inclusion, measured by access to financial services, financial literacy, and government policies, and MSME growth, measured by revenue, number of employees, and business expansion. The results show that financial inclusion positively impacts MSME growth in both countries, with a greater effect in Malaysia. In Bali, although financial inclusion has a positive effect, the impact is smaller due to lower financial literacy and limited access to financial services. In Malaysia, more advanced financial inclusion policies and broader fintech access contribute significantly to MSME growth. This study suggests that to foster MSME growth, more structured financial inclusion policies, as well as improving financial literacy and access to financial services, should be a primary focus.

Keywords: Financial Inclusion, MSMEs, Growth, Bali, Malaysia.

INTRODUCTION

Financial inclusion is one of the key elements in supporting economic growth, especially in developing countries that rely heavily on micro, small, and medium enterprises (MSMEs) as the main pillar of the economy. In Indonesia, the MSME sector contributes more than 60% to GDP and provides employment for the majority of the workforce. MSMEs in Indonesia play a very important role in equitable distribution of wealth and as agents of change in the local economy. However, despite the significant contribution of MSMEs, this sector faces various challenges that hinder its growth, one of which is limited access to financial services. Financial inclusion, which is intended to provide access to broader and more affordable financial services, is expected to be a solution to overcome these obstacles. A banking system that only serves certain market segments and low financial literacy among the public are two major factors that hinder the growth of the MSME sector.

In Bali, for example, which is one of the provinces with the highest concentration of MSMEs in Indonesia, the level of financial inclusion is still relatively low despite efforts by the local government to promote easy access to banking for MSME players. Bali, with its tourism sector as the mainstay of its economy, has also experienced changes in the consumption patterns of its people, which are becoming more sophisticated and digital. Nevertheless, MSMEs in Bali still face difficulties in accessing



more adequate financial services that can support the development of their businesses. Research by Apriyani (2025) states that one of the obstacles faced by MSMEs in Bali is low financial literacy, which results in limitations in the use of financial products and services to expand their businesses.

On the other hand, neighboring Malaysia, with its more advanced financial inclusion policies, has experienced the positive impact of wider access to financial services for MSMEs. Research conducted by Sana et al. (2020) reveals that financial inclusion in Malaysia has had a positive impact on the growth of their MSMEs, particularly through affordable and easily accessible financing policies for MSME players. With higher financial literacy, MSMEs in Malaysia have greater opportunities for growth. This is reflected in the number of business sectors that have been able to grow rapidly due to easier access to the funds and resources needed for expansion. Therefore, a comparative study comparing the impact of financial inclusion on MSME growth in Indonesia, particularly Bali, and Malaysia is very important to provide an overview of how both countries can utilize financial inclusion as a major driver of MSME growth in developing countries.

Financial inclusion can be defined as providing access to financial services, whether provided by banking or non-banking institutions, with the aim of improving the economic and social welfare of the community. In developing countries such as Indonesia and Malaysia, financial inclusion focuses not only on access to banking products, but also on improving the community's understanding of personal and business financial management. One of the efforts made by the Indonesian government is the program *Layanan Keuangan Tanpa Kantor (Laku Pandai)* which aims to make it easier for people to access banking services, especially in areas that are underserved by conventional banks. However, although this program has been successfully implemented in several regions, the results achieved have not been entirely uniform, particularly in Bali, which still faces various challenges in increasing the level of financial inclusion.

Meanwhile, in Malaysia, financial inclusion policies are more integrated with the digital banking system, which allows MSMEs to access financing through financial technology (fintech) platforms. Adriani & Wiksuana (2018) note that this country has developed various digital financial services that make it easier for MSME players to obtain business capital without having to go through complicated procedures. For example, Malaysia has developed a platform

ePeniaga which enables MSMEs to access financing more easily. In addition, the fintech sector in Malaysia has grown rapidly, providing fast and unsecured microloans for MSME players who find it difficult to obtain loans from traditional banks. This has had a significant impact on the growth of MSMEs in the creative and manufacturing sectors, which were previously hampered by limited access to finance.

Given these differences, it is important to conduct research comparing how financial inclusion affects MSME growth in both countries, especially in Bali, a province with many MSMEs that have great potential for growth. This study aims to explore the impact of financial inclusion on MSME growth in Indonesia and Malaysia, as well as provide insights into how both countries can optimize their financial inclusion policies to promote more inclusive and sustainable MSME sector growth. The use of the Structural Equation Modeling (SEM) analysis model will help analyze the relationship between the variables of financial inclusion, financial literacy, and MSME growth. In this case, data collected from Bali and Malaysia will provide a clearer picture of the extent to which financial access affects the performance and growth of MSMEs in both countries.

This study will also contribute to the literature on financial inclusion, especially in the context of developing countries, by showing how financial inclusion policies can be adapted and implemented to support MSME growth. By highlighting the differences in the implementation of financial inclusion policies between Indonesia and Malaysia, this study is expected to provide useful recommendations for governments and financial sector actors in designing more effective policies to support MSME growth in developing countries.

METHODS

This study uses a quantitative approach with Structural Equation Modeling (SEM) to analyze the effect of financial inclusion on MSME growth in Bali, Indonesia, and Malaysia. SEM was chosen for its ability to test complex relationships between latent and observed variables, as well as to provide a clearer picture of the interactions between variables.

Research Design:

This study uses a comparative design, comparing data from MSME actors in Bali, Indonesia, and Malaysia. Bali was chosen because of its high concentration of MSMEs, especially in the tourism and culinary sectors. Malaysia was chosen because of its more advanced financial inclusion policies.

Research Variables:

1. Financial Inclusion (Independent Variable): Measured through access to financial services, financial literacy, and government policies.
2. MSME Growth (Dependent Variable): Measured through income, number of employees, and business expansion.

Research Hypotheses:

1. H1: Financial inclusion has a positive effect on MSME growth in Bali, Indonesia.
2. H2: Financial inclusion has a positive effect on MSME growth in Malaysia.
3. H3: The effect of financial inclusion on MSME growth is greater in Malaysia than in Bali.

Data Collection Procedure:

Data was collected through surveys of SME owners in Bali and Malaysia using a questionnaire with a 5-point Likert scale to measure financial inclusion and SME growth. Respondents were selected through purposive sampling, namely SMEs that already had access to financial services.

Research Instrument:

The questionnaire consisted of two parts: the first measured financial inclusion (access to services, literacy, policy), and the second measured MSME growth (income, number of employees, business expansion).

Data Analysis:

Data was analyzed using Structural Equation Modeling (SEM) with AMOS software. SEM tested the relationship between financial inclusion and MSME growth variables. P-value testing was conducted to test the significance of the relationship between variables, with the following interpretation:

- p-value < 0.05: Significant relationship.
- p-value > 0.05: Insignificant relationship.

SEM Procedure:

1. Identification (n = 200): Collected data from 200 respondents.
2. Screening (n = 150): Filtered valid data.
3. Eligibility (n = 120): Ensured respondents met the criteria.
4. Included (n = 100): Valid data was used for analysis.

RESULTS AND DISCUSSION

In this section, we will present the results of the Structural Equation Modeling (SEM) analysis used to test the effect of financial inclusion on MSME growth in Bali, Indonesia, and Malaysia. The data used in this analysis was obtained from 100 respondents selected through purposive sampling, namely MSME actors who have accessed financial services in both countries.

The SEM test results will explain the relationship between the variables of financial inclusion and MSME growth, as well as the differences in influence between Bali and Malaysia.

Data Description

The number of respondents involved in this study was 100 MSMEs in Bali and Malaysia, with 50 respondents from Bali and 50 respondents from Malaysia. The data collected includes three main variables:

1. Financial Inclusion: Measured through access to banking services, financial literacy, and related government policies.
2. MSME Growth: Measured through annual income, number of employees, and business expansion.

Measurement Model

The measurement model used in this study has been tested with goodness-of-fit indices (GOF) to ensure model suitability. The indices used were Chi-Square (χ^2), Root Mean Square Error of Approximation (RMSEA), Comparative Fit Index (CFI), and Normed Fit Index (NFI). Based on the test results, the measurement model met the adequacy fit criteria, with the following values:

- $\chi^2 = 43,12$, p-value = 0,05 (fit),
- RMSEA = 0,045 (good fit),
 - CFI = 0,98 (good fit),
 - NFI = 0,95 (acceptable fit).

Hypothesis Testing and SEM Results

SEM testing was conducted to examine the relationship between financial inclusion and MSME growth. The analysis results revealed several important findings.

Hypothesis Testing Results 1: The Effect of Financial Inclusion on MSME Growth in Bali

- Path Coefficient: 0.45
- p-value: 0.004
- Interpretation: These results show that financial inclusion has a positive effect on MSME growth in Bali, Indonesia. A p-value of less than 0.05 indicates that the effect of financial inclusion on MSME growth in Bali is significant. This indicates that better access to financial services can encourage increased income, number of employees, and business expansion in Bali MSMEs.

Hypothesis 2 Test Results: The Effect of Financial Inclusion on MSME Growth in Malaysia

- Path Coefficient: 0.55
- p-value: 0.002
- Interpretation: The effect of financial inclusion on MSME growth in Malaysia is greater than in Bali, with a path coefficient of 0.55 and a highly significant p-value (0.002). This shows that in Malaysia, more structured financial inclusion policies and wider access to financing contribute more to MSME growth than in Bali.

Hypothesis 3 Test Results: Comparison of the Impact of Financial Inclusion between Bali and Malaysia

- Path Coefficient (Bali): 0.45
- Path Coefficient (Malaysia): 0.55
- p-value for comparison: 0.025
- Interpretation: The comparison results between Bali and Malaysia show that the impact of financial inclusion on MSME growth is greater in Malaysia than in Bali, with a path coefficient difference of 0.10. A p-value of less than 0.05 indicates that this difference in impact is statistically significant.

Table 1: SEM Test Results and P-Values

Hypothesis	Path Coefficient	p-value	Interpretation
The Effect of Financial Inclusion on MSME Growth in Bali	0.45	0.004	Significant, financial inclusion has a positive effect
The Effect of Financial Inclusion on MSME Growth in Malaysia	0.55	0.002	Significant, financial inclusion has a greater effect
Comparison of the Effect of Financial Inclusion between Bali and Malaysia	0.10	0.025	Significant, financial inclusion has a greater effect in Malaysia

Table 1 shows the SEM test results for the three hypotheses tested in this study, along with the path coefficient and p-value for each relationship tested.

The test results show that financial inclusion has a significant effect on MSME growth in both countries. In Bali, a p-value of 0.004 indicates that financial inclusion has a positive effect on MSME growth, with a statistically significant effect. In Malaysia, a smaller p-value (0.002) indicates a greater and more significant effect. A comparison of the effects between Bali and Malaysia yields a p-value of 0.025, which indicates a significant difference, with Malaysia showing a greater effect of financial inclusion on MSME growth than Bali.

The results of this study clearly support the hypothesis that financial inclusion has a positive effect on MSME growth in Bali and Malaysia, with a greater level of influence in Malaysia. This is consistent with theories underlying the importance of financial access to support MSME sector development. Fanji Farman et al. (2025) state that broader financial inclusion provides opportunities for MSMEs to access the capital needed for expansion and business capacity building. In Bali, although financial

inclusion has a positive impact on MSMEs, lower financial literacy in Indonesia, as revealed by Apriyani (2025), hinders MSME players from utilizing the full potential of existing financial services. This explains why, despite the positive influence, the impact is not as significant as that found in Malaysia.

Meanwhile, in Malaysia, more advanced financial inclusion policies have encouraged MSMEs to more easily access financing and financial services. Adriani & Wiksuana (2018) explain that policies such as microfinance and efficient digital payment systems in Malaysia have boosted MSME growth, especially in sectors that are more capital-intensive, such as manufacturing and trade. This reinforces the hypothesis that financial inclusion, with the right policies, can significantly increase MSME growth, as seen in Malaysia with a p-value of 0.002, which indicates a highly significant effect.

The difference in the effect of financial inclusion between Bali and Malaysia also indicates that although financial access is important, the implementation of policies and infrastructure that support financial inclusion play an important role in optimizing the growth potential of MSMEs. More advanced policies in Malaysia, such as easier access to fintech services and more structured financing support, have proven to be more effective in promoting MSME development than in Bali.

CONCLUSIONS

Based on the results of this study, it can be concluded that financial inclusion has a significant effect on MSME growth in Bali, Indonesia, and Malaysia, albeit with varying degrees of influence. In Bali, although financial inclusion contributes to MSME growth, its influence is limited by factors such as low financial literacy and limited access to broader financial services. In contrast, in Malaysia, with more advanced financial inclusion policies and better access to financial technology (fintech), the influence of financial inclusion on MSME growth is greater and more significant. This shows that structured financial inclusion policies, coupled with increased financial literacy and access to financial services, can accelerate SME growth. This study provides important insights for policymakers in Indonesia and Malaysia, particularly in designing more effective strategies to support SMEs through increased financial inclusion.

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