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The Influence of Financial Inclusion and Financial Literacy on MSME Performance with Debt Financing Strategy as an Intervening Variable in Depok City, West Java

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This study aims to analyze the influence of financial inclusion and financial literacy on the performance of Micro, Small, and Medium Enterprises (MSMEs) with debt financing strategy as an intervening variable in Depok City, West Java. The research method used is a quantitative approach with path analysis using Structural Equation Modeling based on Partial Least Square (SEM-PLS). The results show that financial inclusion and financial literacy have a positive and significant effect on MSME performance. Wider access to financial services enables MSMEs to obtain capital and expand their businesses, while good financial literacy encourages appropriate financial decision-making. In addition, debt financing strategy is also proven to have a positive and significant effect on MSME performance, because it can increase working capital and operational capacity of the business. Financial inclusion and financial literacy directly have a positive effect on debt financing strategy. MSMEs with good financial access and adequate financial understanding tend to be more effective in using debt as a source of business financing. Another important finding shows that debt financing strategy mediates the effect of financial inclusion and financial literacy on MSME performance. This means that strategic debt use is a crucial pathway to improving business performance through leveraging financial access and understanding. This research provides practical implications: increasing financial inclusion and literacy must be accompanied by a prudent debt management strategy to sustainably improve MSME performance.

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1. Introduction

In the current era, the performance of MSME (Micro, Small, and Medium Enterprises) actors faces increasingly complex and dynamic challenges, coupled with the rapid development of technology, which presents both opportunities and threats for other MSME owners. On the other hand, economic uncertainty, policy changes, and the impact of global events, such as the COVID-19 pandemic, have tested the resilience and adaptability of MSME actors. The success of MSME actors now relies heavily on their ability to adapt to rapid and widespread changes.

In the face of all these challenges, research on MSME performance becomes highly relevant. This research is crucial to understand how MSME actors manage rapid changes and how technology and sustainability are key in building adaptive and resilient business strategies (Nashir et al., 2025).

MSMEs have become the backbone of Indonesia's economy. The presence of MSMEs not only creates job opportunities but also strengthens economic resilience in the face of global economic volatility (Qadisyah et al., 2023). However, despite their important role, the challenges faced by MSMEs remain significant, such as limited access to capital and a lack of managerial capacity. Therefore, support from the government and the private sector is essential for MSMEs to develop more rapidly and be competitive in the global market. On the other hand, MSMEs play a vital role in reducing poverty in Indonesia (Ismail et al., 2023). By providing employment opportunities for the community, MSMEs help reduce unemployment rates and provide opportunities for many people to increase their income. This is especially true in various regions in Indonesia, including Depok City, West Java. MSMEs serve as a primary source of family economic empowerment and the development of skills and expertise that can open up broader business opportunities.

Improving MSME performance depends not only on operational efficiency and product innovation but also on often-overlooked aspects such as financial inclusion and sound financial literacy (Marsenta et al., 2024). Both of these factors play a crucial role in creating a solid foundation for sustainability and business growth. In an increasingly complex business world, understanding and managing finances well is key to maximizing the potential of businesses. By focusing on improving performance, MSMEs can reduce production costs, which in turn increases profit margins. More efficient processes enable MSMEs to adapt quickly to market changes, a skill that is highly necessary in today's fast-paced era.

According to Mali (2023), MSME performance is the overall result of work achieved and compared to previously set targets and goals. In addition, improving performance contributes to strengthening the company’s reputation. By consistently delivering high-quality products or services, MSMEs can build trust among customers. This trust is a valuable asset that not only attracts new customers but also retains existing ones. Meanwhile, according to Azizah et al. (2023), MSME performance is the result of the function of work or activities performed by individuals or groups in an organization, influenced by various factors to achieve common goals within a specified time frame. The job functions referred to are the implementation of tasks and responsibilities assigned to individuals or groups, as they are the collective responsibility of the group.

One of the factors influencing MSME performance is the financial inclusion of business owners. According to Hilmawati and Kusumaningtias (2021), financial inclusion is a comprehensive study aimed at eliminating various barriers related to the use and utilization of financial services by society. Financial inclusion is one of the key pillars in economic development, particularly for micro-enterprises. Micro-enterprises, which often serve as the backbone of local economies, need adequate access to financial services to grow and develop. Without this access, their potential for innovation and competitiveness in the market is limited. Previous studies have examined the impact of financial inclusion on MSME performance, one of which is a study by Yanti (2019), which found that financial inclusion has a positive and significant impact on MSME performance. However, another study with conflicting results is by Hilmawati and Kusumaningtias (2021), where the research indicated that financial inclusion does not have a significant effect on MSME performance. Below is an overview of the results from a pre-survey regarding financial inclusion for MSMEs in Depok City.

Table 1. Results of the pre-survey on financial inclusion of MSMEs in Depok City

No	Pernyataan	Setuju	Porsentase	Tidak Setuju	Porsentase
1	Saya memiliki kemudahan akses perbankan	12	40,00	18	60,00
2	Saya melakukan transaksi keuangan setiap hari	14	46,67	16	53,33
3	Kebutuhan perbankan saya telah terpenuhi	9	30,00	21	70,00
4	Saya menerima banyak manfaat dari produk perbankan	13	43,33	17	56,67

Source: results of a pre-survey on MSMEs in Depok City (February 2025)

Based on the survey results regarding financial inclusion, the majority of respondents reported difficulties in accessing banking services, with 60% stating they did not have easy access, while only 40% felt helped by these services. Although almost half of the respondents conduct financial transactions daily, the majority (53.33%) do not, indicating the limited use of daily financial services. Additionally, 70% of respondents felt that their banking needs had not been fully met, reflecting a gap between existing products and the real needs of the community. While some respondents felt they benefited from banking products (43.33%), the majority felt otherwise (56.67%), suggesting that the benefits received from these products have not been maximized. Overall, this survey highlights significant challenges in accessing and utilizing banking services, which financial institutions need to address by improving infrastructure, providing education, and developing more relevant products so that financial inclusion can be achieved more effectively.

Another factor that influences MSME performance is the financial literacy of the owners. According to Barus et al. (2024), financial literacy refers to the knowledge, skills, and beliefs that influence attitudes and behaviors to improve the quality of decision-making and financial management in order to achieve the financial well-being of society. Good financial literacy enables businesses to make better, data-driven decisions. For instance, with a deep understanding of financial statements, managers can identify profitable investment opportunities or recognize areas requiring cost efficiency. This not only improves profitability but also strengthens the company's position in the market.

On the other hand, companies with low financial literacy are at risk of making strategic mistakes that could have fatal consequences. A lack of understanding of cash flow or investments could result in failure to respond to market changes quickly. In the long term, this could affect the company's reputation and competitiveness. The research conducted by Barus et al. (2024) found that financial literacy has a positive impact on MSME performance. However, based on the study by Anggriani et al. (2023), financial literacy does not have an impact on MSME performance. Below is an overview of the pre-survey results on financial literacy for MSMEs in Depok City.

Table 2. Results of the pre-survey on financial literacy of MSMEs in Depok City

No	Pernyataan	Setuju	Porsentase	Tidak Setuju	Porsentase

1	Saya memahami perbedaan antara pendapatan, pengeluaran, dan tabungan dalam manajemen keuangan pribadi	19	63,33	11	36,67
2	Saya memahami cara kerja bunga kredit pada pinjaman pribadi atau kartu kredit	12	40,00	18	60,00
3	Saya tahu perbedaan antara tabungan biasa, deposito, dan investasi	10	33,33	20	66,67
4	Saya menyadari pentingnya memiliki dana darurat untuk menghadapi risiko keuangan tak terduga	20	66,67	10	33,33

Source: results of a pre-survey on MSMEs in Depok City (February 2025)

Based on the results of a pre-survey on financial literacy, the majority of respondents (63.33%) understood the difference between income, expenses, and savings in personal financial management, although approximately 36.67% still did not fully grasp the concept. However, understanding of credit interest on personal loans or credit cards remained low, with 60% of respondents disagreeing that they understood how credit interest worked. Furthermore, only 33.33% knew the difference between regular savings, time deposits, and investments, indicating a lack of understanding of more advanced financial instruments. On the other hand, awareness of the importance of having an emergency fund was quite high, with 66.67% of respondents recognizing its importance to face unexpected financial risks. Overall, despite a good understanding of basic financial management, significant gaps remain in credit management, savings and investment instruments, and emergency financial planning, indicating the need for further efforts to improve public financial literacy.

On the one hand, debt financing strategies play a key role in improving MSME performance. According to Timpal et al., (2021), strategy is the science and art of effectively utilizing capabilities, resources, and scope. Debt financing strategy is a financing strategy implemented by business actors by utilizing funding sources from third parties, such as banking institutions, cooperatives, and non-bank financial institutions in the form of debt (Yusuf, et al., 2025). According to Nurbaty and Perkasa (2023), the use of debt when managed properly can have a positive impact on business development and sustainability. Additional capital from debt allows MSMEs to increase production capacity, expand distribution networks, improve product quality, and optimize operational processes. The results of research conducted by Perdana, et al., (2023) also show that debt financing strategy has a positive relationship with MSME profitability. Meanwhile, according to Nakabili et al., (2018), debt financing strategy has a negative effect on MSME performance.

Table 3. Results of the pre-survey on the debt financing strategy of MSMEs in Depok City

No	Pernyataan	Setuju	Porsentase	Tidak Setuju	Porsentase
1	Saya membuat perencanaan yang matang sebelum mengajukan pinjaman untuk kebutuhan usaha.	9	30	21	70
2	Pinjaman yang saya ambil digunakan untuk kegiatan produktif usaha seperti pembelian bahan atau peralatan.	24	20	6	80,00
3	Saya memilih lembaga pembiayaan berdasarkan suku bunga,	7	23,33	23	76,67

	kemudahan prosedur, dan reputasinya.				
4	Saya membayar angsuran pinjaman tepat waktu sesuai dengan perjanjian dengan lembaga pemberi pinjaman.	5	16,67	25	83,33

Source: results of a pre-survey on MSMEs in Depok City (May 2025)

Based on survey data from 30 MSME respondents, variations in attitudes and practices regarding debt financing strategies are evident. Overall, the survey results show that although MSMEs tend to use loans for productive purposes, they still face significant challenges in financing planning, selecting financing sources, and maintaining debt repayment discipline. Therefore, increased education and support are needed in developing debt financing strategies so that MSMEs can maximize the benefits of financing and maintain stable business performance.

This research aims to investigate several key factors influencing MSME performance, including the impact of financial inclusion, financial literacy, and debt financing strategy. Specifically, the study seeks to examine the effects of financial inclusion and financial literacy on MSME performance, as well as their influence on debt financing strategy. Furthermore, the research will explore how both financial inclusion and financial literacy impact MSME performance indirectly through debt financing strategy. This study is expected to provide valuable insights into the dynamics of financial inclusion and literacy within the context of MSMEs, offering practical knowledge for further research in this area. Additionally, it provides an opportunity for the researcher to apply theoretical knowledge gained during academic studies, contributing to a deeper understanding of problem analysis, decision-making, and drawing conclusions. Ultimately, this research aims to serve as a foundation for future studies on the financial factors influencing MSME performance.

2. Method

Research Design

The research design, according to Cooper & Schindler (2014), is a structured plan created to answer research questions. This study aims to examine the influence of financial inclusion and financial literacy (independent variables) on MSME performance (dependent variable), with debt financing strategy as an intervening variable. The research method is quantitative, as defined by Sujarweni (2019), involving statistical procedures for data analysis. The study follows an Explanatory Research approach, which focuses on understanding the relationships between variables and is more complex compared to other research types (Saunders et al., 2019).

Time and Place of Research

This research will be conducted over three months, from December 2024 to February 2025. The detailed schedule, from proposal preparation to thesis defense, is outlined in the research plan. The study will take place in Depok City, focusing on several districts, chosen due to the accessibility for the researcher to conduct activities within the area.

Population and Sample

The population for this study consists of all MSME owners located in Depok City. The sample size is determined using the Cochran formula, which estimates the minimum number of samples required to represent the population with a 95% confidence level and a 10% margin of error, resulting in a minimum of 97 respondents. The sampling technique used is non-probability sampling with purposive sampling. This method is chosen because it selects respondents based on specific criteria relevant to the research, such as MSME owners in Depok who have operated for at least two years, have accessed formal financial services, and are directly involved in financial decision-making. This approach is expected to yield data that accurately reflects the influence of financial inclusion and financial literacy on MSME performance, with debt financing strategy as an intervening variable.

Data collection technique

The data used in this study is primary data, collected through questionnaires. According to Sugiyono (2019), a questionnaire is a data collection technique where respondents answer a set of written questions related to the research variables, including financial inclusion, financial literacy, debt financing strategy, and MSME performance. The questionnaire was created using Google Forms and distributed via WhatsApp groups within the MSME community. The responses are measured using a 5-point Likert scale, ranging from "Strongly Agree" to "Strongly Disagree," with scores assigned accordingly. This scale helps to measure attitudes, opinions, and perceptions of individuals regarding social phenomena.

Data Analysis Techniques

This study uses Structural Equation Modeling (SEM) for data analysis, allowing for the exploration of direct and indirect relationships between variables. SmartPLS 4.0 software is used for data processing. The outer model tests validity and reliability, with convergent validity considered acceptable for outer loadings above 0.7. Discriminant validity is evaluated through cross-loadings and AVE comparison. Composite reliability values above 0.7 indicate reliable constructs.

The inner model is evaluated using R-square (R^2) for prediction power, Q^2 for predictive relevance, and the GoF index for model fit. Hypothesis testing includes T-tests for direct effects, with significance at t-value > 1.96, and Sobel tests for mediation, confirming significance if the t-value exceeds 1.96.

3. Result and Discussion

H1 There is a Positive Direct Impact of Financial Inclusion on MSME Performance (H1)

Based on the path coefficient calculations in Table 4.24, Financial Inclusion positively affects MSME Performance directly, with an original sample value of 0.188 and a t-statistic > 1.96, which is 2.851. Furthermore, based on the p-value of 0.000 < 0.05, the Financial Inclusion variable significantly influences MSME Performance directly. It can be concluded that Financial Inclusion positively and significantly affects MSME Performance directly, thus H1 in this study is accepted.

According to Hilmawati (2019), Financial Inclusion is a comprehensive study aimed at eliminating various barriers related to the use and utilization of financial institution services by society. Mali (2023) defines Financial Inclusion as a program designed to make society, especially the lower-middle class, understand and use the services of financial institutions, primarily banking. According to Anwar & Amri (2017), Financial Inclusion refers to providing financial services such as savings, credit, insurance, and payments at prices affordable to all economic actors, especially those with low incomes.

H2 There is a Positive Direct Impact of Financial Literacy on MSME Performance (H2)

Based on the path coefficient calculations in Table 4.24, Financial Literacy positively affects MSME Performance directly, with an original sample value of 0.442 and a t-statistic > 1.96, which is 6.224. Furthermore, based on the p-value of 0.000 < 0.05, the Financial Literacy variable significantly influences MSME Performance directly. It can be concluded that Financial Literacy positively and significantly affects MSME Performance directly, thus H2 in this study is accepted.

According to the Financial Services Authority Regulation No. 76/POJK.07/2016 on Improving Financial Literacy and Financial Inclusion in the Financial Services Sector for Consumers and/or the Community, Financial Inclusion is access to various financial institutions, products, and services in accordance with the needs and capabilities of society to improve the welfare of the community (Andriyani & Sulistyowati, 2021). According to the Center for Financial Inclusion, Financial Inclusion means access to appropriate financial products, such as financing, savings, insurance, and payments. The availability of quality access consists of comfort, coverage, suitability, protection, and availability of services for the community. Quality financial services can help MSME actors meet their capital needs (C. Indonesia, 2021). Financial Inclusion is a comprehensive activity aimed at eliminating all forms of barriers, both in terms of price and non-price, to access services that society can use or utilize from financial services (Yanti, 2021).

H3 There is a Positive Direct Impact of Debt Financing Strategy on MSME Performance (H3)

Based on the path coefficient calculations in Table 4.24, the Debt Financing Strategy variable positively affects MSME Performance directly, with an original sample value of 0.368 and a t-statistic > 1.96, which is 5.748. Furthermore, based on the p-value of 0.000 < 0.05, the Debt Financing Strategy variable significantly influences MSME Performance directly. It can be concluded that Debt Financing Strategy positively and significantly affects MSME Performance directly, thus H3 in this study is accepted.

Debt Financing Strategy depends on individual concern for future generations, as explained by Akerlof (2007). Ricardian equivalence, where there is no preference for or against debt, holds when individuals consider future generations to be the same as themselves. Preference for debt can occur when there is no concern at all for future generations. In line with this, Saudara et al. (2021) found that people more concerned with the welfare of future generations are more willing to support climate policies and debt reduction. The fact that green investments will benefit future generations may have a contradictory effect. Loans may shift costs to those who will benefit the most, but those most concerned with future generations may be reluctant to burden them with debt. Therefore, we hypothesize that people more concerned with the welfare of future generations may prefer green investments but be less inclined to finance them through public debt.

Debt financing is targeted at clear policy objectives, such as carbon taxes and wealth taxes. In particular, in the Netherlands, public debt is less popular than public spending cuts in other areas. However, debt financing is more popular than broad-based taxes like VAT and personal income taxes. We further find evidence that concerns about future generations and fiscal conservatism are negatively associated with support for financing green investments through debt, while we found no relationship between support for debt financing and our time preference measure. This last finding, though surprising, aligns with the literature (Jacobs and Matthews, 2012).

H4 There is a Positive Direct Impact of Financial Inclusion on Debt Financing Strategy (H4)

Based on the path coefficient calculations in Table 4.24, the Financial Inclusion variable positively affects Debt Financing Strategy directly, with an original sample value of 0.257 and a t-statistic > 1.96, which is 2.997. Furthermore, based on the p-value of 0.003 < 0.05, Debt Financing Strategy significantly influences MSME Performance directly. It can be concluded that Debt Financing Strategy positively and significantly affects MSME Performance directly, thus H4 in this study is accepted.

According to Mutiara (2023), Financial Inclusion is a condition when the majority of individuals utilize available financial services and minimize those who have not understood the benefits of access to financial services available without higher costs. In short, a condition where every individual in society has access to various formal financial services is called financial inclusion. Furthermore, economies worldwide strive to enhance financial inclusion as part of their strategy to develop the economic and financial sector by providing access to financial services.

H5 There is a Positive Direct Impact of Financial Literacy on Debt Financing Strategy (H5)

Based on the path coefficient calculations in Table 4.24, the Financial Literacy variable positively affects Debt Financing Strategy directly, with an original sample value of 0.586 and a t-statistic > 1.96, which is 6.918. Furthermore, based on the p-value of 0.000 < 0.05, the Financial Literacy variable significantly influences Debt Financing Strategy directly. It can be concluded that Financial Literacy positively and significantly affects Debt Financing Strategy directly, thus H5 in this study is accepted.

Financial literacy is cognitive ability, an efficiency parameter that regulates productivity input in the financial literacy function, according to Muñoz-Murillo et al. Therefore, the positive relationship between cognitive ability and financial literacy is anticipated because individuals with higher cognitive abilities are less likely to make financial mistakes. However, this relationship may be influenced by other important factors aside from cognitive ability. These include non-cognitive skills such as risk avoidance, patience in calculation, and parental characteristics.

Financial anxiety, a psychological condition marked by a negative mindset towards financial issues, also plays an important role in financial literacy. The relationship between financial anxiety and financial literacy is still an exploration subject, with some studies showing a positive relationship (Pijoh et al.). This suggests that individuals with higher financial anxiety may have more financial information, leading to better financial literacy. Conversely, higher financial literacy generally reduces financial anxiety. Furthermore, Tinghög et al. found a significant indirect effect of gender on financial literacy through financial anxiety, with increasing financial anxiety among women contributing to the gender gap in financial literacy. Openness to problem-solving is an individual's ability to analyze and understand situations and solve problems efficiently. Openness to problem-solving, attitude towards risk, self-efficacy, and despair have also been identified as important factors positively impacting financial literacy.

Financial literacy for MSMEs is very important because it helps them make wise decisions, manage financial resources, and sustain business growth. Financial literacy for MSMEs helps them optimize financial management, improve competitiveness, and overcome various financial challenges often faced by small and medium-sized businesses. By increasing financial literacy, MSMEs can become more resilient to market changes and have better opportunities for growth (Rumbianingrum & Wijayangka, 2018).

H6 There is a Positive Impact of Financial Inclusion on MSME Performance through Debt Financing Strategy as an Intervening Variable (H6)

Based on the path coefficient calculations in Table 4.24, Financial Inclusion positively affects

MSME Performance through Debt Financing Strategy with an original sample value of 0.095 and a t-statistic > 1.96, which is 2.859. Furthermore, based on the p-value of 0.010 < 0.05, the Financial Inclusion variable significantly influences MSME Performance through Debt Financing Strategy as an intervening variable. Therefore, H6 in this study is accepted.

Financial inclusion also requires more active roles from institutions and the government to complement microfinance institution programs and private banks. It also requires innovative ideas and policies to ensure that small and medium-sized enterprises (SMEs), which are often underserved by the financial market, have greater access to credit and other financial services (Culpeper, 2012). Deficiencies in the social and personal environment also contribute to the weak level of financial inclusion and should be seen as a major barrier to implementing financial inclusion. Financial inclusion is not a monolithic phenomenon and must begin to be studied gradually, starting from having a bank account to fully utilizing modern financial instruments (Cnaan, Moodithaya, & Handy, 2012). Distance and geographical limitations will also make SMEs poorly served (Shankar, 2013) and will face many challenges (Chakrabarty, 2012). Demirgüç-Kunt & Klapper (2012) in their research found that 50 percent of adults worldwide have become "bankable" (have an account in formal financial institutions). Additionally, issues such as expanding geographical and demographic outreach will create further challenges (Chakrabarty, 2012); (Beck & De La Torre, 2007), as the broader the financial inclusion outreach, the wider the opportunity for financial access. Biswas & Gupta (2013) found in their research that educational background, income, and demographic factors significantly influence financial inclusion because they understand the benefits they will receive (Mahdzan & Tabiani, 2013); (Seshan & Yang, 2012); (Bhushan & Medury, 2013). Cnaan et al. (2012) observed that deficiencies in social and personal issues greatly contribute to financial barriers, which should be seen as a major obstacle to financial inclusion; low demand for financial services and lack of access to society in general (Bebczuk, 2008), and this occurs due to low levels of financial literacy and a lack of trust in financial institutions (Babych, et al., 2018).

H7 There is a Positive Direct Impact of Financial Literacy on MSME Performance through Debt Financing Strategy as an Intervening Variable (H7)

Based on the path coefficient calculations in Table IV.24, Financial Literacy positively affects MSME Performance through Debt Financing Strategy as an intervening variable with an original sample value of 0.216 and a t-statistic > 1.96, which is 4.365. Furthermore, based on the p-value of 0.000 < 0.05, the Financial Literacy variable significantly influences Debt

Financing and MSME Performance directly. It can be concluded that Financial Literacy positively and significantly affects MSME Performance directly, thus H7 in this study is accepted.

Many MSMEs still lack awareness of the importance of proper financial record-keeping and accounting practices. The limited human resources owned by MSMEs in financial reporting is a problem that must be addressed (Putri & Maghfiroh, 2022). In fact, the majority of MSMEs are “illiterate” in accounting. Therefore, the potential to not perform bookkeeping increases (Latief, 2018). Bank Indonesia, in collaboration with the Ministry of Manpower, Tourism, and Creative Economy, developed the Financial Information Recording Application System (SI APIK) to increase MSME funding and skills to enhance MSME performance (Haryono, 2022). In November 2022, the Bank Indonesia Purwokerto Representative Office conducted inclusive financial education and training on the financial information recording application system (SI APIK) for MSMEs in Banyumas, held in Purwokerto (Bank Indonesia Purwokerto, 2022). To improve performance, society must have access to formal financial services that match their needs and capabilities. This education aims to help MSME owners understand financial inclusion and assess the sustainability of their business as well as their ability to generate profits and repay debt.

The implementation of accounting information systems can assist MSMEs in improving their performance by facilitating transactions and bookkeeping. This is supported by the opinion of Ermawati and Arumsari (2021), who stated that the application of information systems will make it easier for MSMEs to carry out operational activities, thus improving performance. Accounting information systems provide benefits to MSME performance according to research by Purnata and Suardikha (2019). Findings from research by Ermawati & Arumsari (2021) and Suhargo et al. (2022) show that MSME performance is not affected by accounting information systems.

4. Conclusion

The study concludes that financial inclusion has a positive and significant impact on MSME performance, as it improves access to financial services, enabling MSMEs to secure capital, invest, and expand, thereby boosting productivity and profitability. Financial literacy also positively influences MSME performance, as better financial understanding leads to more informed decision-making. Debt financing strategy has a significant positive effect on MSME performance by increasing working capital and expanding business capacity. Both financial inclusion and financial literacy positively affect debt financing strategy, with better access to financial services and financial knowledge enabling MSMEs to make more strategic borrowing decisions. Additionally, both financial inclusion and financial literacy significantly improve MSME performance through debt financing strategy, with the strategy acting as a bridge between financial access and business growth, demonstrating that informed financial management enhances long-term business sustainability.

Recommendations for Future Research

Based on the conclusions, the researcher offers several suggestions for future studies. First, future research could compare urban and rural generations to identify potential behavioral differences, contributing to the novelty of the study. Second, it is recommended that future research use a longitudinal or time series approach to observe consistency in respondents' answers over time. Lastly, for better data collection, questionnaires should not only be distributed via Google Forms but also through face-to-face interactions or interviews to gather more direct insights from respondents.

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