

Research Article

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The Influence of Financial Literacy, Social Capital, Financial Inclusion, and Communication Skills on the Reach of Financial Institutions and Their Impact on the Effectiveness of Ultra Micro Financing (Case Study of MSMEs in Subang Regency)

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Abstract: *This study aims to analyze the influence of financial literacy, social capital, financial inclusion, and communication skills on the reach of financial institutions and their impact on the effectiveness of ultra-micro financing. The research used a quantitative survey method through the distribution of questionnaires to MSMEs in Subang Regency. Data were analyzed using Structural Equation Modeling (SEM). The results showed that financial literacy, social capital, financial inclusion, and communication skills simultaneously influence the reach of financial institutions. Partially, financial literacy and social capital do not influence the reach of financial institutions, while financial inclusion and communication skills do. Furthermore, this study found that the reach of financial institutions influences the effectiveness of ultra-micro financing. These findings provide insights for financing program managers and policymakers to improve program effectiveness by strengthening financial inclusion and the communication skills of MSMEs.*

Keywords: *Financial Literacy, Social Capital, Financial Inclusion, Communication Skills, Reach of Financial Institutions, Effectiveness of Ultra Micro Financing.*

Introduction

One of the main tasks of the government of the Republic of Indonesia, as stipulated in the Preamble to the 1945 Constitution, is to advance general welfare, which serves as the philosophical and constitutional foundation for the formation of the Unitary State of the Republic of Indonesia. This mandate is not only normative, but also a collective commitment to realizing social justice for all Indonesian people. In line with this, Regional Autonomy Law Number 23 of 2014 strengthens the role of regions in improving social welfare, by providing flexibility for local governments to formulate policies that are responsive to the needs of their communities. However, amidst the dynamics of national and regional development, Indonesia still faces major challenges that are important indicators of welfare, namely the Financial Inclusion Index which has only reached 36%, the Inequality Index (Gini Ratio) of 0.50, the Unemployment Rate of 7%, and the Poverty Rate of 15% in 2024. Although these figures show a trend moving in a positive direction, they are still far from the ideal conditions expected, thus requiring more intensive and measured efforts.

The latest data from the Central Statistics Agency (BPS) in March 2024 shows significant improvements. The poverty rate has fallen to 9.03%, while the Gini Ratio is at 0.40, and the financial inclusion rate has reached 45%. However, despite this increase in financial inclusion, a significant gap remains between financial access (45%) and financial literacy, which is only 28.66%. This indicates that although more people can access financial services, their understanding of financial products and risks remains very low. This situation has the potential to create new vulnerabilities, such as the risk of default and household economic instability, especially for the lower-middle class.

In the context of West Java Province, BPS data for June 2024 recorded that the number of poor people reached 3.85 million, with a poverty line of IDR 450.4 thousand per capita per month. A positive trend is also seen in the decline in the percentage of the poor population, both in urban and rural areas. In March 2024, the percentage of the poor population was 7.46%, a decrease of 0.16 percentage points compared to March 2023, and 0.52 percentage points compared to September 2022. The number of poor people in March 2024 also decreased to 3.89 million people, or a decrease of 39.93 thousand people compared to the previous year and 204.94 thousand people compared to September 2022. On the other hand, the percentage of poor people in urban areas fell from 7.19% in March 2023 to 7.07% in March 2024, while in rural areas it fell from 9.30% to 9.07% during the same period. This decline indicates that various poverty alleviation and local economic strengthening programs have had a positive impact, although further policy acceleration and innovation are needed to further reduce poverty rates.

Sectors related to improving the welfare of the middle and lower classes, such as education, health, and employment, must continue to be prioritized. With greater empowerment, the middle and lower classes will not only be able to improve their standard of living but also make a greater contribution to driving regional economic growth. Therefore, synergy between the central and regional governments, and all stakeholders is key to accelerating the achievement of equitable and sustainable prosperity in Indonesia.

To realize the mandate of public welfare, the Indonesian government has endeavored to design and implement various programs in the form of Social Assistance, People's Business Credit (KUR) in the form of soft loans, and dozens of other financing schemes. However, the implementation of these various programs has not been fully effective in reducing poverty rates, reducing social disparities, or expanding financial inclusion in society. The reality on the ground shows that banking requirements that are still too strict, especially related to the need for collateral, are a major obstacle for micro, small, and medium enterprises (MSMEs) in accessing financing. The latest data reveals that of the approximately 62 million MSMEs, approximately 44 million, or approximately 71 percent, are unable to gain access to formal banking services. This challenge confirms that conventional financing approaches have not been able to optimally reach the poor, so innovation and adjustments to more flexible financing schemes known as *Taylor-made Financing* are needed to truly address the real needs of micro and small business actors.

Financial literacy is an individual's ability to understand and use various financial concepts to make informed and appropriate economic decisions in everyday life and business contexts. According to (Daskalakis et al, 2023), financial literacy encompasses the knowledge, skills, and beliefs that enable business actors to make responsible and informed financial decisions and effectively manage financial risks.

In such a situation, a program is needed that not only reaches low-income communities but is also effective in driving sustainable economic growth. The launch of the Ultra Micro Financing (UMi) program is a strategic and relevant solution to fill this gap. The UMi program is specifically designed to support the community's economy, particularly in the agricultural and micro-scale trade sectors, which have long been the backbone of national economic resilience. Ultra Micro Financing offers advantages in terms of lighter requirements, a simpler process, and a more personalized approach tailored to the needs of beneficiaries, thus overcoming structural barriers that have hindered financial access for low-income communities.

The role of MSMEs as a driving force of the economy has also been historically proven. MSMEs have repeatedly demonstrated their resilience in weathering the storm of the global economic crisis, both in maintaining national economic stability and in maintaining jobs for millions of Indonesians. Therefore, ultra-micro financing programs are not only a short-term solution to overcome limited financial access, but also a strategic investment in strengthening the foundation of an inclusive and sustainable people's

economy. Therefore, strengthening ultra-micro financing programs is expected to accelerate equitable economic growth, improve community welfare, and strengthen national economic resilience amid increasingly complex global challenges.

The presence of Ultra Micro (UMi) financing is expected to be a strategic solution to increase the inclusiveness of the national economy, while significantly reducing the dominance of various parties who have previously profited from the vulnerable conditions of the unbanked community. In practice, many micro-entrepreneurs especially in the informal sector are forced to rely on loans from loan sharks or informal financial institutions with high interest rates due to limited access to formal banking. This condition not only places a financial burden but also weakens the community's competitiveness and economic growth. Therefore, the presence of the Ultra Micro financing program is a form of protection and empowerment for groups who have been marginalized by the formal financial system.

However, for this program to truly deliver a sustainable positive impact, a commitment to continuous evaluation and periodic improvement of the implementation of Ultra Micro financing is required. An in-depth study of the program's effectiveness must be conducted, considering various indicators, such as increasing the number of new entrepreneurs, expanding financial access, reducing poverty, and inclusive economic growth across various sectors. Thus, the results of this study can serve as a basis for future program refinements, including regulations, distribution mechanisms, and support for beneficiaries.

The effectiveness of microfinance refers to the extent to which small-scale financial services, including microcredit, microsavings, microinsurance, and other innovative financial services, achieve their primary objectives (Basu et al., 2020). These primary objectives are to improve the economic well-being of low-income communities, empower vulnerable groups such as women, people with disabilities, and remote communities, and encourage entrepreneurial growth among marginalized communities (Agbola et al., 2017); (Lal et al., 2023).

Ultra Micro Financing is essentially present to provide easy, fast, and affordable financing facilities for Ultra Micro Enterprises, thereby expanding the government's reach in supporting entrepreneurial groups that have not been touched by conventional financing programs such as People's Business Credit (KUR). This program specifically targets the three lowest levels of micro businesses that have not yet obtained access to banking financing, as can be seen in Figure 1.1. Thus, Ultra Micro financing not only plays a role as an alternative financing, but also as a catalyst in strengthening the foundation of the people's economy, creating jobs, and encouraging more equitable and equitable economic growth throughout the country.

The greater the social capital possessed by business actors, the greater the reach of financial institutions in effectively delivering their services. Social capital plays an essential role in facilitating information dissemination, building trust in financial institutions, and strengthening social networks as a medium for mediating financial access. Research by (Natalia et al, 2020) and (Goenadi et al, 2022) shows that social capital significantly mediates the relationship between financial literacy and financial inclusion in the MSME sector. (Bongomin et al, 2020) even emphasized that in the context of developing countries like Uganda, social networks serve as a primary channel for distributing financial knowledge and strengthening financial literacy and inclusion. Based on Social Capital Theory, interpersonal relationships based on trust and collective norms can strengthen collaboration between business actors and financial institutions.

Each year, the government consistently sets a target for the distribution of People's Business Credit (KUR) through various designated banks and financial institutions, as an effort to strengthen the economic foundation of MSMEs throughout Indonesia. In 2024, the KUR distribution target was set at IDR 280

trillion, with a trend of increasing disbursement realization each month. This not only reflects the high need for capital in the MSME sector but also demonstrates the trust and enthusiasm of business actors in government programs. Data from the Ministry of Economic Affairs of the Republic of Indonesia (Kemendagri) in August 2024 recorded that KUR disbursement realization had reached IDR 195.6 trillion, or approximately 69.86% of the annual target. Furthermore, in September 2024, disbursement realization increased to IDR 209.84 trillion (73.85% of the target), and in October 2024, disbursement was closer to the target with realization of IDR 246.88 trillion (88.17% of the target). This positive development continued until November 2024, when KUR disbursement reached IDR 269.48 trillion (96.24% of the target). By the end of the year, on December 23, 2024, KUR disbursement had exceeded the set target, reaching IDR 280.28 trillion, or 100.10% of the annual target. This achievement demonstrates the very strong demand for financing and the effectiveness of synergy between the government, banks, and MSMEs in accelerating recovery and strengthening the national economy.

However, despite the success of these disbursement figures, it is important to review the effectiveness of the Small Business Credit (KUR) in improving the welfare of small business owners in real terms. Research by (Hawariyuni, 2016) shows that microfinance, a micro product specifically designed for the small business segment, has proven more successful than KUR in improving small business performance, with success indicators including increased income, fixed asset growth, and household spending. These findings indicate that although KUR has achieved its distribution targets quantitatively, from a qualitative perspective, microfinance that is more adaptive and inclusive to the needs of small business owners can have a more tangible and sustainable impact on improving community welfare. Therefore, the government needs to continue evaluating and innovating these two financing schemes so that they can complement each other in strengthening the MSME ecosystem in Indonesia.

Financial literacy is a crucial prerequisite for increasing financial inclusion, particularly in reducing the gap in access to formal financial institutions. Based on the theory of supply and demand in financial inclusion (Demirgüç-Kunt et al., 2015), financial literacy reflects the demand side, namely an individual's ability to understand and use financial information for decision-making, including decisions about interacting with financial institutions. Individuals with low financial literacy tend to be unfamiliar with financial products, lack trust in financial institutions, or are unaware of how to access them (Crujisen et al., 2021). Although various government initiatives have expanded the reach of financial institutions, financial literacy remains a key determinant of public access to formal financial services (Hussain et al., 2018). However, there remains a gap in understanding how financial literacy affects the intensity and quality of interactions with financial institutions, particularly for vulnerable groups and small business owners.

A highly inspiring success story that has been widely adopted by the Ultra Micro Financing concept is the founding of Grameen Bank by Muhammad Yunus in Bangladesh. With the main capital of passion, confidence, patience, and consistency, Grameen Bank has grown into a leading microfinance institution in the world. Currently, Grameen Bank has 2,914 branches, nearly 22,000 employees, and serves 8.54 million members, with total assets reaching approximately USD 2.3 billion. This success is also supported by a loan repayment rate that is maintained above 95 percent, an extraordinary achievement in the world of microfinance, considering that its main customers are poor and vulnerable communities who were previously considered unfit for access to formal banking.

Social capital has become a key factor in expanding financial inclusion through the formation of trust networks and community collaboration mechanisms. Within the framework of financial inclusion, social capital is recognized as a non-material factor that significantly influences community interactions with

financial institutions (Bongomin et al., 2018); (Pereira et al., 2017); (Cuellar, 2024). This concept encompasses fundamental elements such as interpersonal trust, binding social norms, and community ties that facilitate information exchange and economic cooperation two critical components in expanding access to formal financial services (Brehm & Rahn, 1997). Social capital theory explicitly states that high levels of trust and social participation within a community can significantly reduce transaction costs and information asymmetry, which have historically been major structural barriers to financial access (Huang et al., 2024). However, literature specifically examining the strategic role of social capital in expanding the reach of financial institutions particularly in rural areas, vulnerable communities, and Micro, Small, and Medium Enterprises (MSMEs) remains relatively limited.

The struggles and achievements of Muhammad Yunus and Grameen Bank are highly regarded internationally. The Nobel Peace Prize was awarded to Muhammad Yunus and Grameen Bank in 2006 in recognition of their contributions to people-centered economic development and poverty alleviation through microfinance. This prestigious recognition not only strengthened Grameen Bank's legitimacy but also accelerated the spread of the microfinance model to countries around the world. This award has further increased the popularity of Muhammad Yunus's microfinance approach and has been widely adopted by microfinance institutions in various developing and underdeveloped countries.

Following the Nobel Peace Prize, microfinance programs have seen a steady increase in both usage and popularity. Numerous studies have demonstrated the remarkable success of microfinance programs in various countries, particularly in increasing incomes, empowering women, and expanding financial access for the poor. However, despite these widely publicized successes, the universal effectiveness of microfinance remains a matter of debate among academics and practitioners. Much of the evidence cited in the literature is anecdotal or comes from in-depth case studies that illustrate positive impacts in specific locations and times but are not necessarily generalizable to all contexts and regions.

Some more rigorous research has been conducted, but the results tend to vary and indicate that the impact of microfinance is not always consistent across locations. Therefore, policymakers must be cautious and not simply apply a universal microfinance approach without considering the social, cultural, economic, and institutional characteristics of each region. Innovation, adaptation, and continuous evaluation are essential for microfinance to truly become an effective and sustainable solution to address poverty and strengthen people's economies in various parts of the world.

Researchers and practitioners in the field of economic development have consistently recognized the importance of Micro, Small, and Medium Enterprises (MSMEs) as a crucial sector in driving the economy. This sector has consistently been recognized as the backbone of national economies, particularly in developing countries, due to its strategic role in job creation, entrepreneurship, and innovation. (Tambunan's, 2023) research explicitly recommends poverty alleviation policies through strengthening MSMEs, as this sector has been proven to open broad employment opportunities and drive economic growth through entrepreneurial spirit and sustainable innovation.

This finding is supported by a study by (Nene & Abegaz, 2021), which concluded that the fewer small businesses in an area, the higher the poverty rate. This underscores the importance of the MSME sector in building an inclusive and sustainable economic foundation. Dynamic MSMEs not only act as economic drivers but also serve as agents of change (Asfahani, 2023), namely, as catalysts for social and economic change within the community.

The contribution of Micro, Small, and Medium Enterprises (MSMEs) to economic development in developing countries is significant. MSMEs are not only the main driving force of national economic

growth but also play a crucial role in job creation. Empirical data shows that the MSME sector can absorb a large workforce, particularly from low-educated communities who often face obstacles in accessing formal sector employment (Widiyanto & Gautama, 2023). Thus, MSMEs directly contribute to reducing unemployment rates and improving social welfare.

Furthermore, the widespread distribution of MSMEs, even in remote areas, has a positive impact on equitable economic development. Their presence in various remote areas allows for a more equitable distribution of income and reduces economic disparities between regions. MSMEs also have the advantage of adapting to local conditions and needs, enabling them to offer products and services relevant to the characteristics of local communities. This differentiates them from large companies, which tend to have a uniform approach and lack flexibility in responding to local dynamics (Shaleh, 2021). Therefore, strengthening the MSME sector is a key strategy for achieving inclusive and sustainable economic development in developing countries.

Thus, strengthening and developing MSMEs is not only a necessity but also a key strategy for accelerating poverty alleviation, increasing national economic competitiveness, and strengthening social resilience in various regions. Therefore, policies oriented toward strengthening MSMEs must continue to be encouraged and supported by all stakeholders, so that this sector can continue to grow and provide optimal benefits to the national economy.

Considering that the People's Business Credit (KUR) has so far tended to be unable to reach the poorest segments of society, this is reflected in the average KUR financing ceiling which ranges from IDR 12 million to IDR 25 million per customer, the presence of Ultra Micro Financing (UMi) with a maximum ceiling of IDR 10 million per customer is designed as a complementary scheme that complements other financing programs, especially KUR. Ultra Micro Financing is expected to fill the financing gap that has not been touched by KUR, so that poor and vulnerable people who usually do not meet conventional banking requirements, such as limited collateral and access to information, can still obtain business capital. Through this scheme, the government seeks to provide easy, fast, and affordable financing facilities, to encourage the birth of new entrepreneurs within the framework of financial inclusion, as well as increase the economic value of customers, both in terms of income and business capacity.

Institutionally, the management of Ultra Micro Financing is regulated in the Minister of Finance Regulation number PMK No.22/2017 concerning Ultra Micro Financing and PMK No.91/2017 concerning the Organizational Structure and Governance of the Government Investment Center (PIP). The Government Investment Center (PIP) is positioned under the Minister of Finance and is mandated as the Fund Coordinator (Coordinated Fund), which is tasked with financing Ultra Micro businesses with the target of reaching 44 million micro businesses throughout Indonesia. The role of PIP is not only as a fund distributor, but also as a booster for competent and experienced financial institutions in channeling financing to micro businesses, so that the fund distribution process can run more effectively, on target, and accountably.

Fundamentally, financial inclusion has emerged as a crucial pillar in the architecture of economic development strategies and poverty alleviation efforts in various developing countries. This financial inclusion reflects not only public access to formal financial products and services but also the extent to which financial institutions successfully reach previously underserved groups a phenomenon known as financial institution outreach (Omar & Inaba, 2020). Ontologically, financial inclusion is deeply rooted in the theory of institutional outreach, which emphasizes the vital role of institutions in expanding their service reach to socially and geographically marginalized groups (Syofyan et al., 2022). However, significant

knowledge gaps remain in comprehensively understanding how increased access to financial services impacts the expansion of financial institutions' institutional reach, particularly in the context of MSMEs.

To strengthen the Ultra Micro Financing ecosystem, the government has taken collaborative steps with various stakeholders. This is realized through the creation of several Memoranda of Understanding (MoUs) between the Ministry of Finance, the Ministry of Communication and Informatics, and the Ministry of Cooperatives and SMEs; and between the Ministry of Finance and the Chairman of Nahdlatul Ulama (NU), the Chairman of the Indonesian Ulema Council (MUI), and the Chairman of Muhammadiyah. In addition, collaboration has also been established between the President Director of PIP and the President Directors of PT Pegadaian, PT PNM, PT BAV, BP3TI, as well as Regents/Mayors in various regions. This cross-sector collaboration aims to expand the reach of financing, improve financial literacy, and strengthen mentoring for micro-entrepreneurs, so that the Ultra Micro Financing program can have a real and sustainable impact on improving the welfare of communities throughout the country. Thus, the Ultra Micro Financing scheme is not only an alternative financing solution, but also a strategic instrument for the government in realizing an inclusive economy and equitable development in Indonesia.

Personal communication skills are increasingly emerging as an essential factor in opening and expanding MSME access to products and services from formal financial institutions. Previous literature suggests that a solid interpersonal approach has significant potential to foster trust between business actors and financial institutions, which in turn serves as a catalyst for expanding financial institutions' outreach to previously unreachable small business segments (Hakim, 2023). The theoretical framework of organizational communication and socioeconomic relations further emphasizes that effective communication plays a crucial mediating role in constructing social networks and business credibility, which are vital for MSMEs seeking to access financing services (Mulyana & Irfan, 2024). However, amid numerous studies highlighting the urgency of financial literacy or institutional support, personal communication skills as an independent variable remain relatively underexplored as a direct determinant of financial institution outreach.

Based on Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs), businesses in Indonesia are categorized into three categories: micro, small, and medium enterprises. A business entity is classified as a micro enterprise if it has a maximum net profit of IDR 50 million or a maximum income of IDR 300 million per year. This division is important for determining government policy priorities in providing support, both in the form of financing and mentoring, according to the needs and characteristics of each business group. In this context, the government consistently strives to strengthen the ultra-micro and micro sectors through various financing programs, one of which is the Ultra Micro Financing program.

The Ultra Micro Financing Program officially began in 2017 with a funding allocation of IDR 1.5 trillion. The government's commitment has continued to increase year after year, with the funding allocation increasing to IDR 2.5 trillion in 2018 and IDR 3 trillion in 2019. Furthermore, the government remains committed to continuing the People's Business Credit (KUR) program in 2025 with a distribution target of being optimized to reach IDR 300 trillion. These targets demonstrate the government's recognition of the important role of micro and ultra-micro businesses in supporting the national economy and its efforts to expand access to financing for businesses at the grassroots level.

The concept of financial institution reach is closely related to financial inclusion, namely the extent to which the public, particularly micro-entrepreneurs, can effectively access and utilize formal financial services such as credit, savings, and insurance (Yang & Zhang, 2020); (Wellalage et al., 2020); (Mao et al.,

2023). Based on financial access theory, expanding the reach of financial institutions concerns not only geographic aspects but also social, economic, and psychological accessibility to financial services (Birkenmaier & Huang, 2024). In this context, the effectiveness of microfinance is measured not only by the amount of funds disbursed but also by how well the financing is used for productive, sustainable purposes and supports microeconomic growth. However, there remains a gap in understanding how financial institutions directly impact microfinance outcomes, particularly in non-monetary dimensions such as business stability, economic empowerment, and efficient use of funds.

Ultra Micro financing funds are distributed through various Non-Bank Financial Institutions (LKBB) that have the capacity and experience to serve the ultra-micro segment, namely PT Pegadaian, PT Permodalan Nasional Madani (PNM), and PT Bahana Artha Ventura (BAV) which collaborate with thousands of cooperatives throughout Indonesia. To ensure effective fund distribution and avoid overlapping, each channeling institution has its own market share. PT Pegadaian focuses on financing individual customers, PT PNM finances business groups, while PT BAV runs a linkage program with cooperatives. Strong infrastructure support is also a strength of this program, with more than 4,500 PT Pegadaian branches, 100 PT PNM branches, and 26 PT BAV branches ready to serve and collaborate with thousands of cooperatives in various regions.

However, despite the program's several years of operation and extensive infrastructure, the effectiveness of Ultra Micro Financing distribution remains suboptimal. This is evident in Figure 1.2, which depicts Conventional Microfinance Distribution by Financing Type in billions of Rupiah from 2018 to 2022. This data demonstrates varying dynamics across categories. Overall, this data still indicates that microcredit absorption has not yet reached its optimal potential.

In the Conventional Financing category, disbursement has indeed shown a strong upward trend, peaking at IDR 47,685.83 billion in 2022 from IDR 34,202.17 billion in 2018. Despite a decline in 2020 to IDR 35,739.64 billion, the subsequent recovery and growth are noteworthy. However, when compared to the enormous capital needs of the MSME sector, this figure may still be far from sufficient to drive the micro-economy on a massive and inclusive basis.

Similarly, Investment Financing, which showed consistent and progressive growth, reaching Rp 19,390.00 billion in 2022 from Rp 9,178.22 billion in 2018, requires further analysis. While the increase is significant, this scale may still be limited considering the vast untapped investment potential in the micro-enterprise sector to increase their capacity and productivity.

In relation to the various challenges above, this study starts from the assumption that Ultra Micro financial institutions are not completely in a dilemma between social missions and profitability, as is often experienced by microfinance institutions in general. Ultra Micro financial institutions are expected to be able to carry out both missions in a balanced manner, so that the Ultra Micro financing program can provide an optimal positive impact for MSMEs. Therefore, this topic was chosen as the main theme in the dissertation research with the title: "The Influence of Financial Literacy, Social Capital, Financial Inclusion and Communication Skills on the Reach of Financial Institutions and Their Impact on the Effectiveness of Ultra Micro Financing Programs in Subang Regency". This research is expected to provide a significant contribution in understanding the factors that influence the effectiveness of Ultra Micro financing programs, as well as providing policy recommendations to strengthen the role of financial institutions in supporting the development of MSMEs in Subang Regency.

Method

A research method is a scientific way to obtain data for a specific purpose and purpose (Garg, 2016). According to (Fleming et al, 2020), a research method is a way to obtain and seek tentative truth, not absolute truth. The result is scientific truth. Scientific truth is open to continuous testing, criticism, and even revision. Therefore, there is no best method for seeking truth; there is only the appropriate method for a specific purpose based on the existing phenomenon. The choice of research method must be tailored to the research being conducted to achieve optimal results (Cevolani et al., 2022).

The research period will be June 2024 – December 2024. According to (Sugiyono, 2019), there is no easy way to determine how long the research will take. However, the duration of the research will depend on the availability of data sources and the research objectives. Furthermore, it will depend on the scope of the research and how the researcher manages the time used. The time allocation used for this research will be carried out over a period of six months, with the first two months being observation, starting with the preparation of the proposal and a proposal seminar; the second two months are for carrying out the research stages, which include data collection and data analysis; and the third two months are the research results reporting stage and consultation on the final research results.

This research was conducted at MSMEs in Subang Regency. The researchers chose to conduct the research there because they wanted to determine the influence of financial literacy, social capital, financial inclusion, and communication skills, mediated by the reach of financial institutions, on the effectiveness of ultra-micro financing in Subang Regency. The results of this study can provide input for improving financial literacy and social capital among MSMEs in Subang Regency.

The data sources used in this study include: 1) Primary Data According to (Sugiyono, 2019) primary data is a source of data that is directly provided to data collectors. Primary data collection techniques obtained directly by filling out questionnaires by MSME managers which include respondent identity (Name, Age, Gender, Occupation and Respondent Response) regarding the Quality of Financial Services and Promotions as well as other data related to this study, and 2) Secondary Data According to (Sugiyono, 2019) secondary data is information obtained not directly from sources but from third parties, in this study secondary data was obtained from literature, previous research that is obtained to support compiling this research.

The data collection methods used in this study are: 1) Observation, a method of data collection in which researchers systematically observe and record the objects being studied. Data collection tools in observation include informal notes, research scales, or recording with tools (Taber et al., 2020), and 2) Questionnaires, namely data collection and in the form of submitting written questions to respondents to be answered that have been prepared in advance. The data collection tool uses a Likert scale used to measure the scale of behavior and opinions. This study uses a Likert scale, where each question or statement will be given a value of 1-5 to obtain interval data (Todd, 2018).

Descriptive statistics is a transformation process in the form of tabulation (summarization, arrangement, or compilation of data in the form of numerical tables and graphs) so that it is easy to understand and interpret according to (Vetter, 20017). Descriptive statistics are used to provide information about the characteristics of the main research variables and provide an overview or description of data whose benchmarks are seen from the average (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (distribution skewness).

Results and Discussion

Research result

Hypothesis testing in this study was conducted using the Structural Equation Modeling (SEM) method. The test was conducted by examining the Original Sample (O) value, T-Statistics, and P-Values to determine whether the influence between variables was significant. The hypothesis was accepted if the T-Statistics value was ≥ 1.96 (for a 5% significance level) and P-Values were ≤ 0.05 .

The simultaneous influence test between Financial Literacy (X1), Social Capital (X2), Financial Inclusion (X3), and Communication Skills (X4) on the Reach of Financial Institutions (Y) shows significant results with a coefficient value of 0.709, T-Statistics of 8.124, and P-Values of 0.000. These results indicate that simultaneously, the four independent variables have a significant influence on the Reach of Financial Institutions.

Other test results show that the Financial Literacy variable (X1) has a positive effect on the Reach of Financial Institutions (Y) with a coefficient value of 0.052. However, this effect is not statistically significant because it has a T-Statistics value of 0.526 and P-Values of 0.300 (> 0.05). Thus, the hypothesis stating that Financial Literacy influences the Reach of Financial Institutions is rejected.

Similarly, testing the influence of Social Capital (X2) on the Reach of Financial Institutions (Y) shows a coefficient value of 0.149 with a T-Statistic of 1.280 and P-Values of 0.100. This value does not meet the significance criteria, so the hypothesis regarding the influence of Social Capital on the Reach of Financial Institutions is also rejected.

On the other hand, the Financial Inclusion construct (X3) shows a significant positive influence on the Reach of Financial Institutions (Y) with a coefficient value of 0.357, T-Statistics of 3.419, and P-Values of 0.000. T-Statistics values exceeding 1.96 and P-Values below 0.05 indicate that this hypothesis is accepted, so it can be concluded that Financial Inclusion significantly influences the expansion of the reach of financial institutions.

The influence of Communication Skills (X4) on the Reach of Financial Institutions (Y) was also proven to be significant with a coefficient value of 0.379, T-Statistics of 2.192, and P-Values of 0.014. Thus, the hypothesis stating that Communication Skills influence the Reach of Financial Institutions is accepted.

Discussion

Overall, the questionnaire tabulation results indicate that the level of effectiveness of ultra-micro financing for micro-enterprise respondents is in the positive category. Most respondents showed a tendency to Somewhat Agree (34.66%) and Agree (40.91%) with statements measuring the impact and benefits of the financing they received. This reflects that most micro-enterprises consider the financing received to have made a positive contribution. The proportion of respondents who stated Strongly Disagree (3.24%) and Disagree (4.03%) was relatively small, while 17.16% of respondents indicated a very high level of effectiveness by choosing Strongly Agree.

A detailed analysis of each statement revealed a strong perception of financing effectiveness. Regarding financing helping achieve stated objectives, 34% of respondents stated Somewhat Agree, 41% Agree, and 17% Strongly Agree, indicating that the financing aligns with their business objectives. Respondents also reported that the benefits derived from financing outweigh the costs, with 36% stating Somewhat Agree, 41% Agree, and 15% Strongly Agree, indicating perceived economic added value. Regarding the efficient use of financing funds, 39% of respondents stated Somewhat Agree, 39% Agree, and 15% Strongly Agree, reflecting prudent fund management.

Repayment capacity was also assessed positively; 32% of respondents stated somewhat Agree, 43% Agree, and 19% Strongly Agree that they are able to repay the loan according to the agreed schedule. This is an important indicator of financing sustainability. Furthermore, the positive impact of financing on expected growth or change was also recognized, with 32% Somewhat Agree, 41% Agree, and 21% Strongly Agree. Regarding risk management, 32% of respondents stated somewhat Agree, 41% Agree, and 22% Strongly Agree that risks associated with financing can be managed well. Finally, in terms of sustainability of benefits, 39% of respondents stated somewhat Agree, 41% Agree, and 11% Strongly Agree that the benefits of financing are sustainable in the long term. Overall satisfaction levels were also high, with 34% somewhat Agree, 41% Agree, and 18% Strongly Agree that they are very satisfied with the financing they received.

The questionnaire results showed that the effectiveness level of ultra-micro financing for micro-enterprises was in the positive category, with the majority of respondents choosing Quite Agree (34.66%) and Agree (40.91%), so that 75.57% considered financing to have a positive contribution. The proportion of disagreement was low (7.27%), while 17.16% indicated very high effectiveness. This positive perception was seen in the alignment of financing with business objectives (34% Quite Agree, 41% Agree, 17% Strongly Agree), benefits exceeding costs (36% Quite Agree, 41% Agree, 15% Strongly Agree), efficient use of funds (39% Quite Agree, 39% Agree, 15% Strongly Agree), and good repayment capacity (32% Quite Agree, 43% Agree, 19% Strongly Agree). The positive impact on business growth (32% Quite Agree, 41% Agree, 21% Strongly Agree), risk management (32% Quite Agree, 41% Agree, 22% Strongly Agree), sustainability of benefits (39% Quite Agree, 41% Agree, 11% Strongly Agree), and high satisfaction levels (34% Quite Agree, 41% Agree, 18% Strongly Agree) confirm that ultra micro financing plays an important role in supporting the success of micro businesses.

Hypothesis 1: Financial Literacy, Social Capital, Financial Inclusion and Communication Skills influence the Reach of Financial Institutions.

This study tested the hypothesis that financial literacy, social capital, financial inclusion, and communication skills simultaneously have a positive and significant influence on the reach of financial institutions to micro-entrepreneurs. The results of the structural model test indicated an original sample value of 0.709, a t-statistic of 8.124, and a p-value of 0.000, which consistently supported the acceptance of the hypothesis with a high level of significance. These findings reinforce the crucial role of these four independent variables in expanding access and the intensity of financial institution services to micro-entrepreneurs, including aspects of financing access, service proximity, and interaction intensity.

These findings have significant theoretical and practical implications, confirming that internal factors, including financial literacy and communication skills as well as external factors, such as social capital and financial inclusion contribute simultaneously to determining the scope of financial institutions' reach to the micro-enterprise segment. Pragmatically, micro-enterprises with strong financial management skills, extensive social networks, utilization of formal financial facilities, and effective communication skills are better able to attract the attention and trust of financial institutions. These findings align with the financial capability framework, which emphasizes the synergy between individual and structural factors in promoting access to financial services.

Hypothesis 2: Financial Literacy influences the Reach of Financial Institutions.

This study aimed to test the hypothesis that financial literacy has a positive and significant influence on the reach of financial institutions among micro-entrepreneurs. However, data analysis showed that the coefficient of financial literacy was 0.052 with a standard deviation of 0.099, resulting in a T-statistic of

0.526 and a p-value of 0.300. With a p-value exceeding the 0.05 significance level, the hypothesis was not statistically acceptable. This finding suggests that increasing financial literacy among micro-entrepreneurs does not directly contribute to expanding their access to formal financial services, contrary to the initial expectations of this study.

Hypothesis 3: Social Capital influences the Reach of Financial Institutions.

This study was specifically designed to test whether social capital has a positive and significant influence on the reach of financial institutions among micro-entrepreneurs. The estimation results show an original sample value (O) of 0.149 with a standard deviation of 0.116, resulting in a T-statistic of 0.1280 and a p-value of 0.000. Given that this T-statistic is far below the significance level of 1.96, the proposed hypothesis is rejected. Thus, increasing social capital, although measurable, does not automatically encourage the expansion of micro-entrepreneurs' access to formal financial services.

Hypothesis 4: Financial Inclusion has an impact on the Reach of Financial Institutions.

This study was designed to test the hypothesis that financial inclusion has a positive and significant impact on the outreach of financial institutions, particularly in the context of micro-enterprises in developing countries. Statistical analysis shows that the original sample (O) value of 0.357 with a standard deviation of 0.104 produces a t-statistic of 3.419 and a p-value of 0.000. Given that the p-value is far below the 0.05 significance limit, the research hypothesis can be accepted with a high degree of confidence. In other words, increasing financial inclusion substantially encourages financial institutions to expand access to their services, particularly for micro-enterprises that previously had limited access to formal financing.

Hypothesis 5: Communication skills influence the reach of financial institutions.

This study aims to test the hypothesis that communication skills have a positive and significant influence on the outreach of financial institutions, especially in the context of micro-entrepreneurs. Based on the results of data processing, the original sample (O) value was obtained at 0.379 with a standard deviation of 0.173, resulting in a t-statistic of 2.192 and a p-value of 0.014. Because the p-value is below the significance threshold of 0.05, this research hypothesis is declared accepted. Thus, it can be concluded that improving the communication skills of micro-entrepreneurs significantly encourages the expansion of access to formal financial institution services.

Hypothesis 6: The reach of financial institutions influences the effectiveness of financing.

This study aims to test the hypothesis that financial institutions' outreach has a positive and significant influence on the effectiveness of microfinance for micro-entrepreneurs. Based on the data processing results, the original sample (O) value was recorded at 0.845 with a standard deviation of 0.044, resulting in a t-statistic of 19.408 and a p-value of 0.000. The p-value, which is far below the significance threshold of 0.05, confirms that the research hypothesis can be accepted with a high degree of confidence. Thus, these results provide empirical evidence that the broader the reach of financial institutions, the greater the effectiveness of microfinance distributed to micro-entrepreneurs.

Conclusion

This study aims to examine the influence of financial literacy, social capital, financial inclusion, and communication skills on the reach of financial institutions, as well as their subsequent impact on the effectiveness of ultra-micro financing in Subang Regency. The research findings provide a comprehensive overview of the real conditions of ultra-micro business actors and the causal relationships between relevant variables. From a descriptive perspective, most respondents were women (68.18%) with more than 5 years of business experience (40%) operating in the trade sector (62.27%). This condition indicates that the Ultra-

Micro Enterprises that are the object of this study are a stable sector and are dominated by female participation, in line with the historical role of Ultra-Micro Enterprises as the backbone of the economy.

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