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# Does Financial Literacy and Government Support Affect SME Performance? Evidence from Disability-owned SMEs in Yogyakarta

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**Abstract:**
Small and medium-sized enterprises (SMEs) owned and operated by persons with disabilities make a meaningful contribution to inclusive economic development. This study examines how financial literacy and government support affect the performance of disability-owned SMEs in the Special Region of Yogyakarta. A structured questionnaire was administered to 56 SME owners with disabilities, selected through purposive sampling, in a quantitative study. Data analysis was conducted using Structural Equation Modelling with the Partial Least Squares method in SmartPLS. The results show that financial literacy does not have a statistically significant effect on SME performance, whereas government support has a positive and statistically significant effect. The findings identify the potential role of targeted government policies in improving access to capital, training, and inclusive policy environments, thereby supporting the productivity and sustainability of businesses owned by persons with disabilities. The paper contributes to the emerging body of literature on inclusive entrepreneurship. It provides case studies that inform policymakers, development practitioners, and other stakeholders seeking to enhance the entrepreneurial ecosystem for entrepreneurs with disabilities. By highlighting government support, the study calls for a concerted partnership to facilitate inclusive economic participation and to empower persons with disabilities to become entrepreneurs.

**Keywords:** Disability-Owned Businesses, Financial Literacy, Government Support, SMEs Performance

## 1. Introduction

Small and Medium-sized Enterprises (SMEs) play a vital role in stimulating economic growth within a country. According to the OECD (2023), SMEs contribute more than 60% of Gross Domestic Product (GDP) in many developing countries and are the largest absorbers of labour. In Indonesia, SMEs are a crucial part of the economy and significantly contribute to enhancing community economic welfare (Sukantiasih & Purwanti, 2025). The most recent information from the Ministry of Cooperatives and Small and Medium Enterprises (2023) indicates that Indonesia's SMEs number 64.2 million, contributing 61.07% to GDP, which amounts to 8,573.89 trillion rupiah. SMEs are also capable of opening new markets and creating jobs, thereby reducing poverty levels (Sukantiasih & Purwanti, 2025). At the regional level, SMEs are crucial for supporting the local economy. Data from the Regional Development Planning, Research, and Innovation Agency of the Special Region of Yogyakarta (2024) Shows there are 345,980 SMEs in 2024. This number underscores substantial local economic potential and plays a vital role in driving regional growth and contributing to the national GDP.

In the context of SMEs overall, a specific segment requires further attention: Disability-Owned Businesses, which are owned by persons with disabilities. These businesses are a vital component of inclusive entrepreneurship but are often overlooked in public policy considerations. According to Orvala et al. (2025), businesses managed by persons with disabilities serve not only as economic instruments but also as mechanisms for self-empowerment and social inclusion, thereby reducing social stigma and strengthening the participation of persons with disabilities in community economic activities. The research results by

Maier & Habib (2025) Indicate that although disabilities are often associated with negative stereotypes about incapability, consumers tend to respond positively to businesses owned by persons with disabilities because they are perceived to provide broader social benefits and hold substantial moral value. However, this SME segment often faces structural obstacles in accessing economic resources, training programs, and adequate financial assistance (Asri et al., 2025). The lack of access to entrepreneurship training and financial literacy hinders many disabled entrepreneurs in managing their finances and developing their businesses sustainably.

Factors contributing to the low financial literacy among SMEs include limited access to financial education, a shortage of skilled financial management personnel, and minimal use of financial technology (fintech) in their operations (Ciza et al., 2025). Individuals with high financial literacy are better able to manage cash flow, make investment decisions, and effectively utilise digital financial services (Setyawati et al., 2023). To enable SMEs to respond and make optimal financial decisions, they must have a sufficiently deep understanding of financial literacy (Lubis, 2022). In the study by Riyadi & Hadyarti (2024)Financial literacy encompasses the knowledge, skills, and competencies that enable SME actors to manage financial resources effectively, thereby positively impacting SME performance. Financial literacy significantly improves SME financial performance through increased profitability, efficiency, and business sustainability, making financial education enhancement a key factor in developing competitive and sustainable SMEs (Setiawati et al., 2025).

In addition to financial literacy, government intervention is essential to improve the competitiveness of SMEs owned by people with disabilities. The government also has a strategic role in developing regulations, training, and mentoring programmes that help SMEs compete and survive by adapting to digital technologies and inclusion (Sholihah et al., 2023). According to NDI (2022), support in the form of access to specialised financing designed for businesses owned by persons with disabilities, entrepreneurship training, and business incubation programs greatly helps overcome the barriers faced by SME actors with disabilities. Inclusive policies that consider the structural barriers experienced by persons with disabilities are significant for supporting the sustainability of their businesses and encouraging socially just economic growth (Klangboonkrong & Baines, 2022).

The gap between theory and practice underscores the need for further investigation into how financial literacy variables and government support influence SME performance. This research seeks to thoroughly analyse the relationships among these variables, especially for Disability-Owned Businesses, which are frequently underrepresented in existing studies. It is anticipated that the findings will provide significant theoretical insights and practical benefits for addressing the challenges faced by disability SMEs. Ultimately, this study aims to enhance the performance of disability SMEs, especially in the Special Region of Yogyakarta.

## 2. Theoretical Framework

### *Financial Literacy*

Financial literacy is crucial for understanding financial matters and making rational decisions (Swiecka et al., 2020). It explains a person's capacity to understand and handle financial matters efficiently to achieve economic objectives (Lusardi & Mitchell, 2023). It encompasses the capacity to comprehend and handle individual financial issues, including planning, fund utilisation, and making appropriate financial decisions (Anugraini et al., 2023). Swiecka et al. (2020) Define it as the capacity to manage one's financial resources effectively, using relevant knowledge and skills to achieve long-term financial stability. Financial literacy can enhance people's confidence in managing their funds by providing the necessary information to make wise financial decisions (Ahmad & Yaacob, 2024). In their research, Swiecka et al. (2020) stated that financial literacy includes five concepts: financial knowledge, financial skills, financial attitudes, financial behaviour, and financial information seeking.

### *Government Support*

Government support is crucial for the progress of SMEs. The government can assist through policies, licensing facilities, socialisation, technical guidance, and promotion to enhance the competitiveness of SMEs (Kapur et al., 2023). In their research, Arshad et al. (2020) classify government support into two categories: financial and non-financial aid. Financial support includes funding, land, business premises, and working capital. In contrast, non-financial support involves research and development, coaching, business assistance, distribution of raw materials and finished products, marketing, and networking. An effective

government that provides financial resources, creates collaborative platforms, and simplifies regulations can foster a supportive environment for SMEs to grow (Tran & Tron, 2023).

***SMEs Performance***

SME performance is the extent to which SMEs achieve their goals, targets, vision, and mission in implementing programmes/activities according to set plans (Nusa, 2021). A variety of factors have been examined to assess the performance of SME, such as financial indicators – for example, revenue and profitability, and nonfinancial measures, e.g., customer satisfaction and product quality (Fauji et al., 2022). Diverse factors, such as market competition, innovation, and strategic orientation, influence SME performance (Keelson et al., 2024). Agus et al. (2023) indicate that SME performance is heavily affected by internal factors such as competence, human resources, and product innovation. Performance measurement can involve several indicators, such as profit growth in nominal terms, customer count, sales volume, and growth in the company's fixed and non-fixed assets (Caroline et al., 2024).

***Financial Literacy and SMEs Performance***

According to the human capital theory proposed by Becker (1975), humans are a form of capital that can be invested in, and returns to these investments come in the form of enhanced productivity and income at both the individual and social levels, through education, training, experience, and other skills. Human capital investments, such as time and resources spent on acquiring skills and knowledge, are processes that lead to increased productivity, innovation, and economic performance. Becker stresses that human capital may not be affected by the production process and can increase as people learn on the job. This investment, which is sometimes their education, is offset by long-term benefits such as higher income and future productivity.

Here, financial literacy is a form of human capital and encompasses an individual's ability to comprehend, manage, and make decisions regarding financial matters, including budgeting, investing, and risk management. For disability SME managers, who often face barriers to accessing formal education and external resources, improving financial literacy through investments in knowledge and skills is expected to optimise operational efficiency and business growth. Caroline et al. (2024) emphasises the importance of financial literacy in supporting financial management and enhancing SME performance; the findings indicate a positive link between financial literacy and SME performance. This finding is reinforced by Fikri & Nahda (2023) study, which indicates that financial literacy has a positive effect, both directly and indirectly through financial access and financial risk attitudes, on SME performance in Yogyakarta. Previous research has shown a generally positive relationship between financial literacy and SME performance; however, there remains a knowledge gap regarding how financial literacy explicitly affects the performance of SMEs run by individuals with disabilities, particularly given the access challenges and resource limitations they face. From this, the following hypothesis is suggested:

H1: Financial literacy has a positive effect on the performance of disability SMEs.

***Government Support and SMEs Performance***

According to the institutional theory, proposed by North (1990)Institutions, such as rules, norms, and social arrangements, are determinants of economic activities, innovation processes, and community development. It also distinguishes between the formal institutions -laws, regulations, and policies of government- and informal ones such as cultural norms, customs, and social networks that together constitute a structure of economic transactions. North stresses that institutions both constrain behaviours and transactions while incentivising individuals and firms to efficiently allocate resources, reduce transaction costs, and provide adequate infrastructure.

In a similar vein, the provision of government help" samples representing support to people with disabilities in capital, skills, or tax incentives" might also be classified as formal institutions, which restrict the operations of disability inclusive SMEs due to structural discrimination and lack of accessibility. Uncoordinated subsidies bring short-term changes and cannot improve long-term competitiveness (Zainuri et al., 2025). Governments' interventions in the form of funding, training, and grants can greatly enhance SMEs' performance (Antesty et al., 2023). Research by Arshad et al. (2020) finds that government support has a substantial positive impact on SME performance. Although previous research on these forms of support shows positive effects for SMEs in general, knowledge of their specific effects for SMEs led by

PWD remains limited, particularly with respect to overcoming structural discrimination and access barriers. Thus, the following hypothesis is proposed:
H2: Government support has a positive effect on the performance of disability SMEs

## 3. Research Methods

### *Population and Sample*

The population in this study comprises SME owners in the Special Region of Yogyakarta, Indonesia. A purposive sampling method was used to recruit persons with disabilities who actively own and operate SMEs. The questionnaires were embedded in a Google Form and distributed via a social media campaign to disabled actors among the SME sample. The initial distribution yielded 62 responses. However, after data cleaning, the final sample comprised 56 respondents. Data cleaning was performed to ensure validity, removing 4 respondents who were not persons with disabilities and did not meet the sampling criteria, and 2 respondents who completed the questionnaire twice, as identified through demographic data. Consequently, the final sample satisfies the criteria of homogeneity and relevance to the study and is adequate for Structural Equation Modelling (SEM) analysis, which requires a minimum of 30-50 samples (Hair et al., 2019).

### *Data Collection Method*

Data was collected through a structured questionnaire divided into three main sections: (1) respondent demographic details, such as gender, age, type of disability, type of business, business age, number of employees, and business legality; (2) independent variables, namely financial literacy and government support; and (3) dependent variables, which is the performance of SMEs. The questionnaire was developed using validated instruments from prior research, adapted for disabled SMEs in Yogyakarta. To avoid missing data, all questions related to variable measurements were mandatory. A five-point Likert scale was used to evaluate the constructs. The Likert scale is a standard measurement instrument used in research to assess respondents' attitudes, opinions, or perceptions in a structured manner (Vagias, 2023). This scale goes from 1, meaning 'strongly disagree,' to 5, meaning 'strongly agree.' Financial literacy was assessed using six measures encompassing knowledge of financial concepts, the need for planning, budgeting, and risk-taking. The four indices on training, market access, and regulation were used to measure government support. Five measures were used to evaluate SME performance: profitability, business growth, and customer satisfaction. The questionnaires were administered in August/September 2025, with the cooperation of local disability associations. The collected data were then verified for accuracy and completeness before analysis.

### *Data Analysis Technique*

Data analysis was performed using Structural Equation Modelling with the Partial Least Squares method (Hair et al., 2011). PLS-SEM can maximise the variance explained by the endogenous variables (Jayeola et al., 2022). PLS-SEM data processing was conducted using SmartPLS version 4.1.1.5 for two reasons. First, PLS-SEM does not assume normal distribution of data, which makes it appropriate for social and behavioural datasets that often do not meet normality assumptions (Hair et al., 2014). Second, PLS-SEM can accommodate relatively small sample sizes, which is appropriate for the research with 56 respondents after data cleaning (Hair et al., 2019).

According to Hair et al. (2014), PLS-SEM involves two primary assessment phases: the measurement model and the structural model. The measurement model primarily involves a confirmatory factor analysis (CFA), mainly when constructs are derived from prior research. Its emphasis is on testing construct reliability, indicator reliability, and construct validity. Reliability was measured by Cronbach's Alpha, Composite Reliability (CR), and Rho A. Indicator reliability assumes that the indicator loadings relate to factor loading, and these values should ideally be greater than 0.7 (Hair et al., 2019). Tests of convergent and discriminant validity are conducted to demonstrate content validity. Hair et al. (2011) describe convergent validity, which states that several items are highly correlated and load on a single factor; discrimination is the ability of an instrument to distinguish between constructs. Convergent validity was tested using the Average Variance Extracted (AVE); values equal to or above 0.5 suggest sufficient convergent validity (Fornell & Larcker, 1981). In PLS-SEM, we have three criteria for validity: Fornell and Larcker's cross-loadings, the heterotrait-monotrait (HTMT) ratio of correlations, and cross-loadings. Discriminant validity is considered in line with the Fornell and Larcker (1981) criterion, which stipulates

that a latent variable accounts for more variance with its own indicator items than loadings of other factors. The theoretical model is tested using path coefficients to evaluate the hypotheses and the R2 statistic to assess the proportion of variance in the structural equation model that is explained.

## 4. Analysis And Discussion

### *Respondent Demography*

The participants are owners of SMEs with disabilities in the Special Region of Yogyakarta, Indonesia. Table 1 shows that 56 participants (observers) completed the survey, comprising 31 males (55%) and 25 females (45%), predominantly aged 35–55. In disability category, persons with physical disabilities (61%) reported the highest prevalence, and this is followed by sensory impairments (21%).

By type of business, almost half of the firms are in food and beverage retailing (48%), followed by durables retailing (29%). In terms of business maturity, 45% of enterprises are older than 6 years, indicating relatively high maturity. However, 75% of SMEs are unincorporated (own account) and do not employ any workers.

The respondents have some operational experience; however, the availability of business legality remains a significant issue. However, more than half of respondents (52%) have approached the Indonesian government directly to obtain their Business Identification Number (NIB) or formal legal status. In comparison, a significant proportion (45%) still relies on informal recognition. This condition highlights persistent structural barriers faced by SMEs with disabilities in accessing formalisation mechanisms.

**Table 1. Respondence's Demographic**

| Category | | Frequency | Percentage |
|---|---|---|---|
| **Gender** | Female | 25 | 45,6% |
| | Male | 31 | 55,4% |
| **Age** | <25 years | 1 | 1,8% |
| | 25-34 years | 5 | 8,9% |
| | 35-44 years | 15 | 26,8% |
| | 45-54 years | 20 | 35,7% |
| | >55 years | 15 | 26,8% |
| **Type of Disability** | Sensory Disability | 12 | 21,4% |
| | Physical Disability | 34 | 60,7% |
| | Mental Disability | 4 | 7,1% |
| | Intellectual Disability | 2 | 3,6% |
| | Psychosocial Disability | 3 | 5,4% |
| | Multiple Disability | 1 | 1,8% |
| **Type of Business** | Fashion/Handicrafts | 8 | 14,3% |
| | Food/Beverage | 27 | 48,2% |
| | Services | 16 | 28,6% |
| | Agribusiness | 1 | 1,8% |
| | Other | 4 | 7,1% |
| **Business Age** | <1 year | 8 | 14,3% |
| | 1-3 years | 14 | 25% |
| | 4-5 years | 9 | 16,1% |
| | >5 years | 25 | 44,6% |
| **Number of Employees** | None (self-employed) | 42 | 75% |
| | 1-2 people | 7 | 12,5% |
| | 3-5 people | 1 | 1,8% |
| | >5 people | 6 | 10,7% |
| **Business Legality** | None/Has no legal standing yet | 25 | 44,6% |
| | Has NIB/Business Permit | 29 | 51,8% |
| | Legal entity | 2 | 3,6% |

### *Descriptive Statistics and Measurement Model*

Table 2 shows the mean scores and standard deviations from the statistical analysis. The mean values range from 3.42 to 3.72, indicating that respondents tend to rate each measured construct in the moderate-to-high category. Most standard deviation scores fall between 1.00 and 1.16. This suggests that the variation in respondents' answers remains within acceptable limits, implying that the data are clustered around the mean. The validity and reliability of the indicators and constructs have been examined in accordance with the existing literature. Indicator validity is assessed using the outer loadings of each construct indicator. The general rule for assessing convergent validity is that outer loadings should be greater than 0.6 (Rasoolimanesh et al., 2015). All outer loading values for each construct indicator meet this criterion. An indicator is deemed valid if its outer loading exceeds 0.6; all values range from 0.663 to 0.913. Convergent validity is assessed using the Average Variance Extracted (AVE), which ranges from 0.639 to 0.734. These figures indicate that the construct explains over half of the variance in its indicators, since all values are above the 0.5 cutoff recommended by (Fornell & Larcker, 1981).

**Table 2. Descriptive Statistics and Measurement Model**

| Constructs | Mean | SD | Indicators | Loadings | AVE |
|---|---|---|---|---|---|
| Financial Literacy | 3.73 | 1.16 | FL1 | 0.883 | 0.734 |
| | | | FL2 | 0.886 | |
| | | | FL3 | 0.851 | |
| | | | FL4 | 0.885 | |
| | | | FL5 | 0.787 | |
| | | | FL6 | 0.864 | |
| Government Support | 3.59 | 1.13 | GS1 | 0.913 | 0.685 |
| | | | GS2 | 0.837 | |
| | | | GS3 | 0.748 | |
| | | | GS4 | 0.805 | |
| SMEs Performance | 3.42 | 1.00 | SP1 | 0.820 | 0.639 |
| | | | SP2 | 0.858 | |
| | | | SP3 | 0.663 | |
| | | | SP4 | 0.816 | |
| | | | SP5 | 0.826 | |

The discriminant validity was evaluated using the Fornell-Larcker criterion, shown in Table 3. This validity is confirmed when the square root of the Average Variance Extracted (AVE) for a latent variable exceeds its correlations with other latent variables. As shown in the table, the square roots of the AVEs for the constructs Financial Literacy, Government Support, and SME Performance exceed the correlation coefficients with constructs not on the diagonal. This demonstrates that each construct uniquely represents a different concept.

Construct reliability was evaluated using Cronbach's Alpha (α), Rho A, and Composite Reliability (CR). Table 4 shows that all these metrics are excellent, each exceeding the 0.7 benchmark. Cronbach's Alpha ranges from 0.866 to 0.929, Rho A from 0.896 to 0.943, and Composite Reliability from 0.899 to 0.982. These values indicate very high internal consistency among indicators within each construct, confirming that this research instrument is reliable as a measurement tool.

**Table 3. Discriminant Validity**

| | Financial Literacy | Government Support | SMEs Performance |
|---|---|---|---|
| Financial Literacy | 0.857 | | |
| Government Support | 0.220 | 0.828 | |
| SMEs Performance | 0.335 | 0.488 | 0.800 |

**Table 4. Reliability Test**

| | Cronbach's Alpha | Rho_A | Composite Reliability |
|---|---|---|---|
| Financial Literacy | 0.929 | 0.982 | 0.943 |

| | | | |
|---|---|---|---|
| Government Support | 0.855 | 0.909 | 0.896 |
| SMEs Performance | 0.861 | 0.899 | 0.898 |

***Structural Model and Hypotheses Assessment***

The evaluation of the structural model relies on $R^2$ and path coefficients. $R^2$ indicates the proportion of variance in the endogenous construct explained by the exogenous constructs, while path coefficients are utilised to test hypotheses. Table 5 reports an R2 of 0.293 for the SME performance variables, indicating that these variables collectively explain 29.3% of the variance.

Path coefficients are deemed significant if the t-statistic is at least 1.96 and the p-value is under 0.05 (Hair et al., 2014). The bootstrapping method with 5,000 subsamples is used to assess the significance of path coefficients (Hair et al., 2019). Table 5 indicates that Financial Literacy does not significantly influence SME performance, thus H1 is not supported. Conversely, H2 is supported, as government support has a statistically significant effect on SME performance.

**Table 5. $R^2$ test**

| | R-square | R-square adjusted |
|---|---|---|
| SMEs Performance | 0.293 | 0.266 |

**Table 6. Bootsrapping Test**

| | Original Sample | Sample Mean | Standard Deviation | T Statistics | P Value |
|---|---|---|---|---|---|
| Financial Literacy → SMEs Performance | 0.239 | 0.259 | 0.188 | 1.274 | 0.101 |
| Government Support → SMEs Performance | 0.435 | 0.445 | 0.140 | 3.120 | 0.001 |

***Discussion***

According to hypothesis testing, H1 (financial literacy) does not show a significant influence on the performance of SMEs in businesses managed by people with disabilities. This finding contradicts several previous studies by Fikri & Nahda (2023) and Caroline et al. (2024), which found that financial literacy is a key factor in enhancing SMEs' performance. However, in the context of SMEs with disabilities, this result can be explained by limited access to inclusive financial education, which means that financial literacy is sufficient for basic operations but insufficient to drive significant performance improvements. Additionally, external factors, such as infrastructure barriers and market discrimination, are more influential in shaping the performance of disabled SMEs than individual financial literacy. This result is consistent with Setiani et al. (2024), who demonstrate that, in a competitive and inclusive business environment, financial literacy alone is insufficient without external support, particularly for vulnerable groups such as people with disabilities.

The results of hypothesis testing indicate that government support positively influences the performance of SMEs managed by people with disabilities. This is in line with the previous studies, which show that the government is highly critical of SMEs through capital support, management policies, or training programs (Antesty et al., 2023). For disability SMEs, government assistance can help overcome specific barriers, such as access to finance, disability-accommodating regulations, and outreach programs, which in turn affect productivity and the survival of businesses owned by people with disabilities. In Indonesia, disability SMEs often face difficulties like stigma and physical limitations. These results confirm that government measures, such as customised capital support or technical assistance, can directly improve the performance of disability SMEs.

This study provides valuable insights into the determinants of Disability SMEs' performance, particularly the influence of government support. It contributes to the body of evidence that government assistance affects the performance of SMEs with disabilities. This highlights the importance of developing more broad-based programmes and policies. The government should be more forthcoming in facilitating access for low-income people with disabilities to resources, including capital, training, and supportive regulations, to help them overcome the hurdles SMEs face. Interventions such as cost-effective capital assistance tailored to the specific needs of persons with disabilities and inclusive business skills training could help enhance their productivity and ensure the sustainability of their businesses.

As financial literacy did not affect SMEs' performance in this study, there remains a need for a stronger focus on improving access to inclusive financial education for people with disabilities. Educational programmes specifically designed to address their needs can help enhance their understanding and financial skills, supporting better decision-making in business management. Society and business actors need to acknowledge and support disability-sensitive SMEs to enhance societal awareness of the potential contributions of individuals with disabilities to the business sector.

## 5. Conclusion

This study examines how financial literacy and government policy affect the performance of Disabled SMEs in the Yogyakarta Special Province. The results suggest that financial literacy does not significantly affect the performance of disabled SMEs, whereas government support does. These findings indicate that strategies to improve the performance of disabled SMEs are more effective when targeted at strengthening external environment supports through policies, training, and support for market access and finance, while taking into account persons with disabilities. Limitations such as sample size and geographic scope should be taken into account in future studies. Hence, the study's empirical contribution fills a gap in academia and practice by exploring how to support disabled SMEs through inclusive and responsive policy measures tailored to the needs of people with disabilities.

There are limitations to this study that, despite its considerable interest, must be considered. That research used only 56 informants from disabled SMEs in the Yogyakarta Special Region, so generalisation of the results to a broader population is limited. In addition, the study focused on only two primary independent variables: financial literacy and government support. Nevertheless, external factors, including access to innovation and the market, and social support, can also affect the performance of disabled SMEs. To address these limitations, future research should draw on larger, more diverse samples from across Indonesia. This will help attain a more comprehensive understanding and allow the exploration of additional variables, providing deeper insights into the factors influencing the performance of disabled SMEs. With this approach, future studies can make more meaningful contributions to the development of inclusive policies and business strategies that promote the sustainability of SMEs owned by people with disabilities.

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