

**MSME FINANCIAL CAPACITY DEVELOPMENT MODEL (MICRO, SMALL,  
MEDIUM ENTERPRISES)  
(Study at the Palu City Business Incubator Institute)**



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**Abstract**

This study aims to analyze the financial capacity development model of micro, small, and medium enterprises (MSMEs) fostered by business incubators and its impact on business performance. The research adopts a qualitative approach using a case study method conducted at a business incubator in Palu City. Data were collected through in-depth interviews, observation, and documentation involving incubator managers, financial mentors, and assisted MSME owners. Data analysis was conducted using the Miles and Huberman interactive model, which includes data reduction, data display, and conclusion drawing. The findings reveal that the financial capacity development model implemented by the business incubator effectively encourages changes in MSMEs' financial behavior following the mentoring process. Initially, MSMEs exhibited low financial capacity, characterized by the absence of systematic financial records, the mixing of personal and business finances, and business decision-making that was not based on financial data. After receiving mentoring, MSMEs began to adopt simple financial record-keeping practices and utilize digital financial technologies. The development of financial capacity has a positive impact on MSME performance, particularly in improving the efficiency and effectiveness of business management, enabling more rational pricing decisions, and enhancing overall business performance. This study highlights the strategic role of business incubators as a business development ecosystem capable of sustainably strengthening MSMEs' financial capacity through integrated assistance tailored to the actual needs of business owners.

**Keywords:** MSMEs, Financial Capacity Development, Business Incubator, Financial Mentoring, Business Performance

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a central pillar of national and regional economic development. In Indonesia, MSMEs not only function as the driving force of the people's economy but also serve as the largest absorbers of labor and significant contributors to the national Gross Domestic Product (GDP). However, amid increasingly dynamic and competitive global economic conditions, MSMEs continue to face various fundamental challenges, particularly in terms of financial management and financial capacity. Many MSME owners still lack adequate capabilities in financial planning, accounting record-keeping, and sustainable cash flow control, which in turn affects their business performance and long-term sustainability (Kartini & Wijaya, 2024).

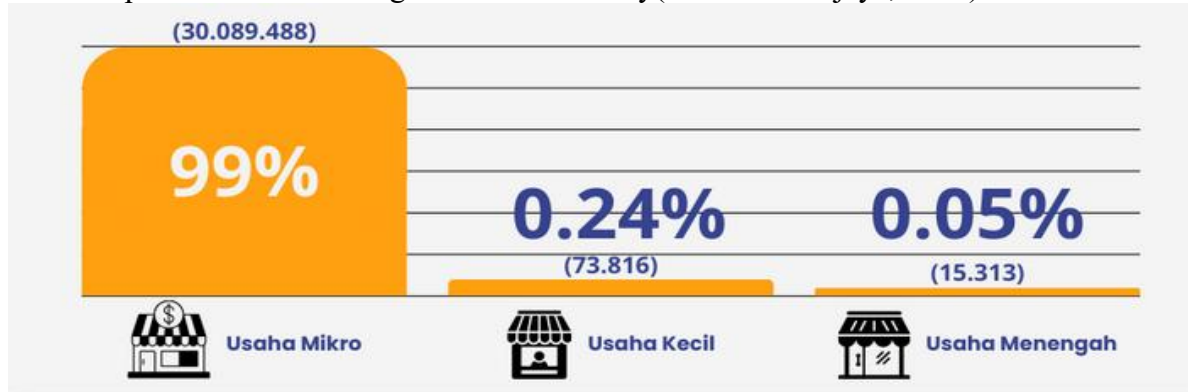


Figure 1.

### Percentage of Micro, Small, and Medium Enterprises in Indonesia

Source: Single Data Information System (SIDT) 2024, Ministry of MSMEs

Based on data from the Single Data Information System (SIDT) 2024 released by the Ministry of Cooperatives and SMEs of the Ministry of Cooperatives and SMEs of the Republic of Indonesia 2024, the number of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia reached 30,178,617 business units. Of this total, micro enterprises dominate, numbering 30,089,488 units or approximately 99% of all MSMEs. Meanwhile, small enterprises account for only 73,816 units or around 0.24%, and medium enterprises total 15,313 units or about 0.05% of all MSMEs. These figures indicate that the MSME structure in Indonesia is still heavily dominated by the micro-enterprise sector, which serves as the main backbone of the national economy. This dominance reflects the high level of public participation in small-scale economic activities, while also underscoring the importance of government and related institutional support in enhancing business capacity and scale so that enterprises can move up to the small and medium categories.

The development of MSMEs' financial capacity which includes financial literacy, access to capital, financial record-keeping and reporting, cash flow management, and the use of digital financial tools has been proven to be one of the key factors in improving financial performance and business sustainability. Effective financial capacity development models typically involve several components: financial education/literacy, mentoring and coaching, financial technology facilities (digital finance, bookkeeping applications, fintech), as well as policy and regulatory support from the government and financial institutions.

Business incubators serve as strategic entities that play a role in developing the entrepreneurial capacity and financial management capabilities of MSMEs. Business incubators provide an integrated ecosystem, ranging from training and guidance to business consultation, designed to strengthen the competitiveness and financial independence of their supported tenants. According to (Hurriati et al., 2024), business incubators are an effective model for fostering new entrepreneurs because they are able to provide support in the form of intensive coaching, the provision of facilities, and managerial mentoring oriented toward enhancing financial capabilities and professional business management.

The low level of financial literacy among MSME owners is often a primary cause of weak, irrational, and unsustainable financial decision-making. As stated by (Prihatin & Maruf, 2019), strong financial literacy skills foster positive financial behavior and improve overall business performance. In this context, financial capacity development strategies through business incubators should be directed toward enhancing MSME owners' analytical capabilities in managing capital, measuring profitability, and conducting transparent and efficient financial evaluations.

Based on the findings of (Manginda et al., 2025), the level of financial literacy among MSME owners affiliated with business incubator institutions in Palu City remains in the moderate category, although some have already acquired a basic understanding of credit management, savings, and investment. These findings indicate that even though mentoring programs have been implemented by the incubators, the application of financial knowledge in actual business practices has not yet been optimal. The gap between conceptual understanding and practical application constitutes a major obstacle to strengthening the financial capacity of MSMEs in the region.

The regional context, as experienced by Palu City an area with strong potential in culinary, handicraft, and processed agricultural MSMEs, alongside post-disaster challenges demands an incubation model that is adaptive and sensitive to local capacities. Local studies indicate a gap between the mentoring programs provided by incubators and the practical ability of business owners to implement sustainable financial practices. This condition underscores the need for an incubation model that combines training, long-term mentoring, and access to both formal and digital financial services (Zhahir et al., 2025). Therefore, the presence of business incubator institutions in Palu City is critically important to bridge the gap between business potential and financial management capacity.

The urgency of this study lies in the pressing need to strengthen MSMEs' financial capacity through incubation models that are more effective, structured, and aligned with the local context. The gap between available mentoring programs and the actual financial management capabilities of MSME owners threatens business sustainability, particularly for micro-enterprises that are highly vulnerable to market uncertainty, economic crises, and limited access to capital. Without an appropriate financial capacity development model, MSMEs in Palu City will face difficulties in enhancing competitiveness, expanding their businesses, and surviving in a volatile economic environment.

The study on business incubator models in developing the financial capacity of MSMEs in Palu City is expected to provide both theoretical and practical contributions. Theoretically, this research enriches the understanding of the effectiveness of incubation models in strengthening MSMEs' financial capacity and offers a conceptual foundation for the development of empowerment models based on financial literacy and financial

management. Practically, the research findings are expected to provide relevant recommendations for business incubator institutions, local governments, and related stakeholders in designing incubation programs that are more innovative, measurable, and oriented toward enhancing financial capacity. This study also delivers direct benefits for MSME owners, particularly in the form of improved financial management capabilities, greater utilization of digital financial technologies, and strengthened business resilience in responding to local and national economic dynamics.

## **REVIEW OF LITERATURE**

### **Micro, Small, and Medium Enterprises (MSMEs)**

Micro, Small, and Medium Enterprises (MSMEs) are an economic pillar in many developing countries, including Indonesia, as they contribute a large market share, employment opportunities, and local economic activity. However, the dominance of micro enterprises presents structural challenges, particularly limited managerial and financial capacity, which hinders the upgrading process to small and medium enterprises. These limitations manifest in the form of low financial literacy among business owners, weak record-keeping practices, limited access to capital, and vulnerability to external shocks (Dewi & Purwantini, 2023). Bibliometric studies and literature reviews consistently indicate that access to finance and financial literacy are the main barriers to MSME performance and sustainability (IS et al., 2025).

The definition and policies related to MSMEs are also grounded in Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, which governs their development and the role of the state in MSME empowerment (Undang-Undang Republik Indonesia Nomor 20 Tahun 2008 Tentang Usaha Mikro, Kecil, Dan Menengah, 2008). In addition to this law, the classification and criteria of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are formally regulated under Government Regulation of the Republic of Indonesia Number 7 of 2021 concerning the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises. This regulation was issued as a derivative of Law Number 11 of 2020 on Job Creation, which updated the MSME criteria previously stipulated in Law Number 20 of 2008. Article 35 of Government Regulation No. 7 of 2021 states that the classification of MSMEs is determined based on two main indicators, namely business capital and annual sales revenue (turnover). This regulation aims to ensure that MSME classification is more objective and accurately reflects actual economic capacity, both for newly established businesses and those that have been operating (Peraturan Pemerintah Republik Indonesia Nomor 7 Tahun 2021 Tentang Kemudahan, Perlindungan, Dan Pemberdayaan Koperasi Dan Usaha Mikro, Kecil Dan Menengah, 2021).

#### **Criteria Based on Business Capital**

1. Micro enterprises have business capital of up to IDR 1 billion (excluding land and buildings used for business purposes).
2. Small enterprises have business capital of more than IDR 1 billion up to IDR 5 billion.
3. Medium enterprises have business capital of more than IDR 5 billion up to IDR 10 billion

#### **Criteria Based on Annual Sales Revenue**

1. Micro enterprises have annual sales revenue of up to IDR 2 billion.

2. Small enterprises have annual sales revenue of more than IDR 2 billion up to IDR 15 billion.
3. Medium enterprises have annual sales revenue of more than IDR 15 billion up to IDR 50 billion

These criteria replace the previous provisions under Law No. 20 of 2008, which used indicators of net worth (net assets) and annual sales revenue. Through Government Regulation No. 7 of 2021, the government clarifies the calculation of business capital by excluding land and buildings, making the classification more representative of actual business capacity.

### **MSMEs' Financial Capacity and Financial Literacy**

Financial capacity refers to the ability of MSMEs to manage financial resources effectively, encompassing planning, record-keeping, control, and financial evaluation to support business sustainability. This capability serves as a foundation for MSMEs in maintaining cash flow stability, optimizing the use of capital, and enhancing business competitiveness in the market (Lestari, 2024). Strong financial capacity also reflects MSME owners' ability to prepare financial statements in accordance with accounting standards and to utilize them for business decision-making. This, in turn, strengthens business credibility in the eyes of financial institutions and investors (Desyana Putri et al., 2023). Furthermore, high financial capacity has been shown to increase profitability and expand access to formal financing for MSMEs (Muthia Tasya Amalia et al., 2025). Financial capacity is not measured solely by the amount of capital owned, but also by the extent to which business owners are able to use funds efficiently for operational activities and business development.

Financial literacy refers to an individual's level of knowledge, skills, and confidence in managing finances to achieve financial well-being. For MSMEs, financial literacy represents the ability to understand and apply basic financial concepts such as cash management, investment, financing, and long-term financial planning, MSME owners with a high level of financial literacy tend to be more capable of maintaining systematic financial records, understanding cash flows, and utilizing financial products and services to support their business activities (Dewi & Purwantini, 2023). High financial literacy also contributes to business sustainability, particularly in MSME owners' ability to manage income, mitigate financial risks, and determine appropriate financing strategies (Puspitasari et al., 2024).

Financial capacity is essentially a manifestation of the application of financial literacy in daily business practices. When MSME owners possess a high level of financial literacy, they tend to be more capable of allocating resources efficiently, separating personal finances from business finances, and undertaking well-structured long-term financial planning. This condition not only enhances the financial health of the business but also strengthens its ability to cope with risks and economic uncertainty (Gusnafitri & Martha, 2024).

### **Business Incubators and Their Role**

Business incubators are one of the methods that can be developed to further empower the potential of SMEs. The National Business Incubator Association (NBIA) defines a business incubator as a business support process designed to accelerate the successful development of startups and early-stage firms by providing entrepreneurs with the necessary resources and services. These services are typically developed or coordinated by incubator

management and are offered either within the business incubator itself or through networks associated with the incubator.

Business incubator institutions serve as strategic entities that play a role in developing the entrepreneurial capacity and financial management capabilities of MSMEs. Business incubators are regarded as effective models for fostering new entrepreneurs because they are able to provide support in the form of intensive coaching, facility provision, and managerial mentoring oriented toward enhancing financial capabilities and professional business management (Hurriati et al., 2024). These integrated services include training, guidance, and business consultation, all of which are designed to strengthen the competitiveness and financial independence of their supported tenants.

Research conducted by (Wijayanti et al., 2024) shows that digital-based business incubator programs in Palu City have been able to encourage the adoption of digital financial systems, such as the Livin' Merchant application, among assisted small and medium industries. The findings confirm that the use of digital financial systems has a positive impact on transaction efficiency, financial reporting transparency, and the ease of recording business activities. However, the study also highlights that the success of digital finance adoption is still strongly influenced by the level of digital literacy of the business owners themselves.

The low level of financial literacy among MSME owners is often a major cause of weak, irrational, and unsustainable financial decision-making. In fact, strong financial literacy capabilities foster positive financial behavior and enhance overall business financial capacity (Prihatin & Maruf, 2019). Therefore, strategies for developing financial capacity through business incubators should be directed toward improving MSME owners' analytical abilities in managing capital, measuring profitability, and conducting transparent and efficient financial evaluations. The main components of financial capacity targeted for development include the ability to prepare financial reports/records, the ability to increase profitability, and the ability to achieve cost efficiency.

## **Theory**

### **a. Capacity Development Theory**

Capacity development theory emphasizes that building the capabilities of individuals, organizations, and social systems is a continuous process aimed at strengthening effectiveness, efficiency, and self-reliance in achieving development goals. Capacity development does not focus solely on improving technical skills, but also encompasses the strengthening of institutional structures, governance, and supportive environments that enable entities to adapt and innovate in response to change. Accordingly, this theory highlights the importance of synergy among human resource development, organizational learning, and enabling policies as the foundation for sustainable development (Morgan, 2006).

### **b. Resource-Based View / RBV**

The resource-based theory posits that sustainable competitive advantage arises from an organization's internal resources that are valuable, rare, difficult to imitate, and not easily substitutable. These resources include both tangible and intangible assets, such as managerial skills, knowledge, innovation, and the organization's capability to manage its resources effectively (Barney, 1991). In the context of MSME development, this theory emphasizes that enhancing financial capacity and managerial capabilities constitutes a strategic resource that can strengthen competitiveness and business

sustainability. (Becker, 1993) further explains that investment in financial literacy and financial skills increases MSME managerial productivity. To measure aspects of financial literacy, this study adopts the OECD/INFE framework, which categorizes financial literacy into knowledge, attitudes, and behavior.

### **Business Incubator Development Model**

A development model is a conceptual as well as practical approach used to design strategies, stages, and implementation mechanisms for enhancing the capacity of an entity, including the financial capacity of Micro, Small, and Medium Enterprises (MSMEs). In the context of business incubators, a development model is not understood merely as a series of short-term mentoring activities, but rather as a systematic and continuous process.

Research by (Fardila & Harto, 2024) indicates that a multi-stakeholder collaborative business incubator model involving incubators, financial institutions, universities, and the private sector contributes to enhancing the capacity and capabilities of MSMEs. Such collaboration enables MSMEs to obtain not only technical and managerial mentoring but also expanded access to markets and financing, ensuring that the incubation process does not stop at improving internal competencies but instead promotes more comprehensive business growth and sustainability.

Another study by (Watulfa & Fithria, 2025) emphasizes that the integration of financial literacy and digitalization in MSME development plays a crucial role in improving the effectiveness of business management. The digitalization of financial record-keeping helps MSME owners monitor business performance more accurately, enhance operational efficiency, and accelerate data-driven decision-making processes. These findings reinforce the argument that the utilization of digital technology is an essential component of modern business incubator development models.

In general, an effective business incubator development model comprises several key elements: (1) the presence of structured and continuous stages of business development; (2) the application of a participatory approach that positions MSME owners as active subjects in the incubation process; (3) a focus on enhancing financial literacy and financial capacity as the foundation of business independence; (4) the utilization of digital technology as a supporting tool for business management and performance evaluation; and (5) multi-stakeholder collaboration to strengthen access to markets, financing, and business networks.

The business incubator development model needs to be designed in an adaptive, collaborative, and needs-based manner that reflects the real conditions of MSME owners. Such an approach enables incubators to function not only as mentoring institutions, but also as business development ecosystems capable of generating sustainable and long-term improvements in MSMEs' financial capacity.

## **RESEARCH METHOD**

This study employs a descriptive qualitative approach to obtain an in-depth understanding of the financial capacity development model for Micro, Small, and Medium Enterprises (MSMEs) through business incubator institutions in Palu City. This approach is chosen because it is able to comprehensively describe phenomena within their natural context without direct intervention, thereby producing a thorough understanding of the mentoring, training, and financial capacity-building processes experienced by MSME owners.

The research was conducted at the Palu City Business Incubator Institution, as it has direct involvement in mentoring and developing the financial capacity of MSMEs in the region. Data sources were obtained through in-depth interviews with incubator managers, financial mentoring facilitators, and assisted MSME owners. Data collection was carried out through in-depth interviews, participatory observation, and documentation. Interviews were used to explore the experiences and perceptions of informants regarding financial capacity development programs. According to (sugiyono, 2019), in-depth interviews are a primary technique in qualitative research for eliciting broad and detailed information based on participants' experiences. The main characteristic of interviews is direct contact between the information seeker (interviewer) and the information source (interviewee). Observation was conducted to understand mentoring practices in the field, while documentation was used as supplementary material to strengthen the field findings.

The data analysis method in this study refers to the framework proposed by (Miles et al., 2014), which explains that qualitative research data analysis is conducted in an interactive and continuous manner. According to (Miles et al., 2014), the steps of data analysis consist of data collection, data reduction, data display, and conclusion drawing and verification. These stages can be illustrated as follows:

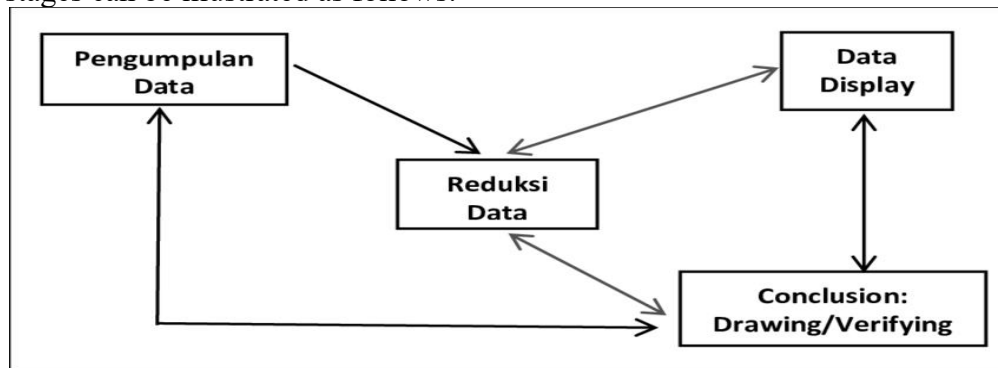


Figure 2.

### Interactive Qualitative Data Analysis Model

Source: Miles, Matthew B., Huberman, A. Michael, & Saldaña, J. (2014)

Data Collection refers to the process of gathering data through in-depth interviews, observation, and documentation related to the development of MSMEs' financial capacity through business incubator institutions in Palu City. Interviews were conducted with incubator managers, financial mentors, and assisted MSME owners to obtain information on financial literacy, forms of mentoring, financial management practices, and obstacles in the implementation of incubation programs. Observation was carried out to directly understand financial mentoring practices and their implementation by MSMEs, while documentation was used as supporting data in the form of activity reports, mentoring modules, and related archives. Data collection was conducted interactively and continued throughout the data analysis process.

Data Reduction refers to a process that begins at the initial stage of data collection and continues throughout the research. This process is carried out by summarizing and selecting data obtained from interviews, observations, and documentation that are relevant to the research focus, namely the model of MSMEs' financial capacity development through

business incubator institutions in Palu City. Data that are not directly related to the research objectives are eliminated. Subsequently, the data are grouped into main themes, including financial literacy, forms of financial mentoring, financial record-keeping and reporting practices, cash flow management, utilization of digital financial technology, and obstacles in the implementation of incubation programs.

Data Display refers to the presentation of data in qualitative research, which is carried out in the form of systematic narrative descriptions in accordance with the themes resulting from data reduction. The data are presented by integrating findings from interviews, observations, and documentation to illustrate relationships among categories and patterns of MSMEs' financial capacity development. Data display is conducted concurrently with the analysis process to facilitate the researcher's understanding of the meaning of the data and to support the drawing of research conclusions.

Conclusion Drawing/Verification is the third step in qualitative data analysis, involving the drawing of conclusions and their verification. Conclusions are developed progressively from the data collection process and continuously verified throughout the research. They are derived through the interpretation of patterns and relationships among the presented data. Verification is conducted using source and method triangulation to ensure the consistency and validity of the findings. The final outcome is a credible conclusion regarding the model of MSMEs' financial capacity development through business incubator institutions in Palu City.

## RESULTS AND DISCUSSION

### Initial Financial Capacity of Assisted MSMEs

The study found that most assisted MSMEs began their businesses with limited financial capacity, particularly in terms of financial record-keeping and business financial management. Maintaining financial records had not yet become an internalized habit in daily business activities. Business owners tended to rely on memory or irregular notes and often still mixed business finances with personal finances. This condition aligns with the findings of (Manginda et al., 2025), which indicate that low financial literacy among MSMEs negatively affects the practice of record-keeping and the separation of business finances.

This condition was confirmed by an informant serving as a financial mentor at the business incubator, who stated that before mentoring was provided, most MSMEs did not have any basic financial record-keeping at all.

*"Many MSMEs, if we trace them, do not have financial statements, nor do they have any financial records." (Informant P1 – Business Incubator Financial Mentor)*

This statement is reinforced by the acknowledgment of assisted MSME owners, who stated that financial record-keeping had not been considered a primary necessity in running their businesses.

*"Until now, I thought the important thing was that the business runs. As for profit and loss, I just estimate roughly." (Informant U2 – Assisted MSME Actor)*

Field observations indicate that the absence of financial record-keeping directly affects MSME owners' ability to make business decisions. Without systematic financial data, business owners cannot accurately determine profitability, cost efficiency, or business sustainability. As a result, business decisions are largely based on personal experience and

estimates. These findings are consistent with those of (Aulia et al., 2025), who concluded that MSMEs without adequate financial record-keeping tend to experience difficulties in performance evaluation and business planning.

*“If asked how much profit they make in a month, most of them cannot give a definite answer.” (Informant P1 – Business Incubator Financial Mentor)*

The findings of this study indicate that the main problem faced by assisted MSMEs is not merely low turnover, but rather the weak internal capacity of business owners to manage and interpret their financial conditions. This condition is also reflected in the study by (Idris & Kusumawati, 2026) which states that financial literacy has a significant impact on the sustainability of MSMEs, particularly in financial decision-making. Furthermore, (Weddiawati & Adriani, 2025) emphasize that strengthening financial capacity through financial literacy and record-keeping constitutes an important foundation for the sustainable development of MSME businesses.

### **Challenges and Limitations of the Financial Capacity Development Model**

Behind the positive impact of mentoring on the financial capacity development of assisted MSMEs, this study also identifies a number of significant structural and behavioral challenges that limit the effectiveness of this model. First, the mindset of MSME owners toward financial record-keeping remains a significant barrier. Some business owners perceive financial record-keeping as an additional burden or a form of external supervision rather than a strategic internal management tool. This perception slows the adoption of consistent record-keeping habits despite mentoring being provided. This condition aligns with the findings of (Hiu et al., 2025), which indicate that a lack of understanding and systematic basic accounting skills hinders the implementation of financial record-keeping in Indonesian MSMEs, including difficulties in comprehending applicable recording standards.

*“They sometimes feel like they are being audited, even though that is not our intention.” (Informant P2 – Head of the Business Incubator Management Team)*

Second, limitations in time and human resources pose a serious challenge. The majority of MSME owners independently handle almost all business functions (production, marketing, sales, administration), leaving very limited time and energy for routine financial record-keeping. This practical obstacle is reinforced by the literature (Meilany et al., 2026), which finds that MSMEs in the field often maintain financial records that are still simple and unstructured, thereby affecting the quality of decision-making and business planning.

*“They are the CEO (owner), production, procurement, sales—all by themselves. By the time they get home, they are already exhausted and have no energy left to record anything.” (Informant P1 – Business Incubator Financial Mentor)*

Third, limitations in the quantity and capacity of mentors at the institutional level affect the intensity of mentoring. Although collaboration with external parties such as universities or training institutions helps to address these gaps, external support is often temporary and not fully integrated into long-term incubation programs. This reflects the findings of another study (Bibiana et al., 2025), which shows that limited internal resources within MSMEs, including a shortage of mentoring personnel, impact MSMEs' ability to implement and sustain sound financial practices over time.

Fourth, the challenge of preparing formal financial statements remains a common issue in the context of MSMEs. Empirical studies show that MSMEs often face obstacles in applying more complex recording and reporting standards due to limited resources,

accounting knowledge, and adequate technical support. Findings by (Hiu et al., 2025), indicate that although there is an improvement in basic understanding through mentoring, the transfer of practices toward consistent and formal record-keeping requires more intensive and sustained intervention.

Fifth, the adoption of digital technology as a tool for financial record-keeping also faces cultural and access-related barriers. Although digital solutions are often promoted as a quick way to improve financial recording and management, the level of digital adoption among MSMEs remains limited by factors such as digital literacy, concerns over data security, initial investment costs, and the readiness of technological infrastructure (Hakim & Iswahyudi, 2024). Overall, these challenges indicate that an effective financial capacity development model depends not only on the transfer of knowledge or technical tools but also on an approach that addresses cultural and behavioral factors, time availability, and the sustainability of support. Such an approach must be strategically planned so that MSMEs are not only able to implement correct practices in the short term but also maintain consistency and sustain their financial performance in the long term.

### **Forms and Stages of Financial Capacity Development Through Business Incubators**

The development of MSMEs' financial capacity through business incubators is carried out through two main channels: general training and specialized mentoring. General training is designed in the form of workshops that introduce the fundamentals of business financial management, including the concepts of record-keeping, budget planning, and understanding basic financial statements. This general training approach has been identified in various studies, including research by (Yusmaniarti et al., 2024), as an initial step in building financial literacy among micro-entrepreneurs who were previously unfamiliar with basic accounting practices. Such training is considered effective in improving participants' basic understanding of transaction recording and financial management before moving on to more intensive mentoring stages.

More substantial capacity strengthening occurs through specialized mentoring that is intensive and personalized. (Ashar et al., 2024) emphasize that mentoring is not conducted uniformly for all MSMEs but is tailored to the needs, readiness, and motivation of each business actor. This mentoring includes technical guidance on financial record-keeping, preparation of financial statements based on the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM), and periodic evaluation of implementation. This condition is reflected in the statement of a financial mentor who is directly involved in the incubation process, as follows:

*“Financial mentoring is only for MSMEs that are willing. If their mindset is not ready to change, we cannot force them either.” (Informant P1 – Business Incubator Financial Mentor)*

The mentoring stages begin with habituating MSMEs to the simplest form of financial record-keeping, such as recording daily income and expenses in a cash book or simple spreadsheet. Once MSMEs demonstrate consistency at this stage, mentors then encourage them to use more structured spreadsheets to produce financial statements that can be understood and analyzed for operational decision-making. This was further emphasized by a financial mentor:

*“We first encourage them to start recording. How much comes in, how much goes out. That comes first.” (Informant P1 – Business Incubator Financial Mentor)*

This gradual approach reflects that business incubators understand the real conditions of MSMEs, where changes in financial behavior are not instantaneous but the result of a process of habituation and repeated learning. Other empirical studies support this model, consistent with the findings of (Trimustikapuri et al., 2024) and (Wulandari et al., 2025), showing that the combination of initial training and continued mentoring significantly improves MSMEs' financial practice skills, especially when the learning materials are tailored to the participants' initial level of capability.

In general, the implementation of these mentoring stages aligns with a practical approach to capacity development, emphasizing experiential learning, situational guidance, and progressive competency strengthening, thereby producing more lasting changes in behavior and skills in MSME financial management.

### **Utilization of Digital Financial Technology in MSME Financial Management**

The utilization of digital financial technology in the context of MSME financial management is implemented gradually and tailored to the capabilities of business owners. In the business incubation process, technology is not introduced immediately in a complex form, such as full accounting applications, but through simple transitional tools like spreadsheets. This approach is chosen because spreadsheets are considered more accessible and easier to understand for MSME owners who are not yet familiar with digital systems. This aligns with the findings of (Santoso et al., 2025), which indicate that digital literacy levels and ease of use are key factors in technology adoption by MSMEs, particularly in the context of digital financial record-keeping and reporting. This strategy was directly explained by the financial mentor as follows:

*“If we use a complicated application, they immediately back off. Spreadsheets are easier; they just need to fill them in.” (Informant P1 – Business Incubator Financial Mentor)*

The findings of this study indicate that the mentoring process shows that assisted MSMEs that have successfully gone through the stage of habituating financial record-keeping and begun utilizing digital financial technology experience improvements in the regularity and accuracy of business financial management. The use of spreadsheets as a simple digital recording tool helps MSME owners record transactions more consistently, in a structured manner, and in a way that is easier to trace compared to the previously sporadic manual recording. Mentors note that after several months of mentoring, some MSMEs are able to independently prepare simple financial summaries and understand the cash flow position of their businesses.

One of the assisted MSME owners described this change as follows:

*“Before, I only estimated how much profit I made. After recording it in Excel, I realized that a lot was leaking through small expenses.” (Informant U2 – Assisted MSME of the Business Incubator)*

This condition is reflected in the experience of one assisted MSME: before participating in the incubation program, financial record-keeping was still done manually using notebooks and simple calculations with a calculator, so financial monitoring was not carried out optimally.

*“At first, it was still recorded manually, using a notebook. Income, expenses, totals— all calculated manually as well using a calculator.” (Informant U1 – Assisted MSME of the Business Incubator)*

Similar findings are also shown by (Supatmin, 2024), who states that the use of digital-based financial record-keeping technology, even if still simple, can improve the consistency of daily transaction recording by MSMEs. The study emphasizes that mentoring plays an important role in ensuring the sustainability of digital financial technology use, especially for MSMEs with limited digital literacy. Without mentoring, technology adoption tends to be unsustainable and often reverts to manual record-keeping practices.

Research by (Widyaningsih, 2023) also reveals that digital financial technology functions not only as a recording tool but also as a financial learning medium for MSME owners. Through the use of simple digital record-keeping, business owners gradually learn to understand the concepts of cash flow, the difference between income and expenses, and the financial position of their business more objectively. These findings align with the results of this study, which show that assisted MSMEs begin to independently prepare simple financial summaries after several months of mentoring.

In addition to record-keeping, mentoring also includes the use of digital payment systems, such as bank transfers and QRIS. The digitization of payment systems makes it easier for MSME owners to track transactions and reduces reliance on manual record-keeping, which is often inconsistent. Mentors note that digital transactions provide clearer transaction trails and can serve as a basis for reconciling financial records.

This was expressed by a financial mentor as follows:

*“Once they use QRIS or bank transfers, we just reconcile the statements. It becomes much easier to check whether the records are correct or not.” (Informant P1 – Business Incubator Financial Mentor)*

From the perspective of business owners, the use of digital payments is also felt to provide convenience in managing daily finances:

*“Now, if someone pays using QRIS, the data appears immediately. So I don’t have to worry about forgetting to record it.” (Informant U2 – Assisted MSME of the Business Incubator)*

The results of the mentoring indicate that MSMEs that have utilized digital financial technology are beginning to experience changes in business decision-making. With more organized and documented financial data, MSME owners can assess the financial condition of their businesses more rationally, such as identifying sales patterns, major operational costs, and the business’s ability to meet daily cash needs. Based on empirical studies on digital technology adoption, research by (Audrey et al., 2023) shows that the adoption of digital technology (including digital record-keeping and payments) is positively correlated with business financial performance, which serves as an important foundation for performance-based decision-making.

This change is reflected in the statement of one of the assisted MSME owners:

*“Now, before buying materials, I first check last week’s records. So I no longer purchase recklessly.” (Informant U2 – Assisted MSME of the Business Incubator)*

After participating in mentoring and receiving financial management materials, MSMEs began switching to the financial spreadsheet templates provided by the incubator. This change not only improves the organization of record-keeping but also helps business owners understand the financial structure more systematically.

*“They gave us a financial template and taught us how to record income, expenses, savings, and emergency funds. From there, I started learning, and now my record-keeping is much better.” (Informant U1 – Assisted MSME of the Business Incubator)*

Research by (Swandani, 2025) further supports this finding, stating that the integration of digital financial record-keeping and digital payments has a positive effect on the effectiveness of MSME financial management. Digitally recorded transaction data facilitates the reconciliation and verification of financial records, thereby enhancing the reliability of financial information as a basis for business decision-making. Thus, the improvement in the organization and accuracy of MSME financial management in this study is not only the result of technology use but also of ongoing and contextualized mentoring.

### **Impact of Financial Capacity Development on the Performance of Assisted MSMEs**

Financial capacity development through mentoring has a significant impact on improving the performance of assisted MSMEs. In the context of MSMEs, business performance is not only understood as an increase in sales but also includes the ability of business owners to manage resources efficiently and effectively, maintain cash flow stability, and make business decisions based on financial data. Financial mentoring acts as an initial intervention that drives changes in financial management behavior, which in turn leads to overall improvements in business performance.

The most fundamental change identified is the ability of MSME operators to separate personal finances from business finances. Initially, the mixing of funds prevented business owners from assessing their business performance objectively. Financial mentors explained that awareness of this issue only emerged after MSMEs consistently maintained financial records for one to three months.

*“After one to three months, they only realized that it was mostly their personal money being spent, not the business funds.” (Informant P1 – Business Incubator Financial Mentor)*

This statement is reinforced by the experiences of assisted MSMEs, who directly felt a change in their understanding of their business’s financial condition.

*“All this time, I felt my business was stagnant. After keeping records, I realized that there were sales, but the money was gone because it got mixed with household expenses.” (Informant U2 – Assisted MSME)*

These findings indicate that the low business performance prior to mentoring was not solely due to weak sales, but rather due to inefficiencies in financial management. Financial record-keeping serves as a diagnostic tool to identify sources of inefficiency, allowing MSME operators to distinguish between revenue-related issues and expenditure-related issues. This result aligns with (Desyana Putri et al., 2023), which states that financial literacy and management have a significant impact on MSME financial performance, particularly by enhancing the ability to control cash flow and operational costs.

As record-keeping became more consistent, the assisted MSMEs began to evaluate their business performance more objectively, particularly regarding revenue, production costs, and profit margins. This improvement positively impacted the effectiveness of business decision-making. The head of the business incubator management team confirmed that there has been a shift in the decision-making patterns of the assisted MSMEs.

*“Now they can make decisions based on data, not just on gut feeling.” (Informant P2 – Head of the Business Incubator Management Team)*

This change in approach directly impacted sales strategies and pricing decisions. One incubated MSME revealed that understanding the cost structure encouraged them to adjust selling prices, which ultimately did not reduce sales.

*“I used to be afraid to raise prices. After understanding the production costs and profit, I realized the old price was causing a loss. After increasing it, sales continued as usual.” (Informant U2 – Assisted MSME)*

This statement indicates that the improvement of financial capacity contributes indirectly to increased sales performance through more rational pricing based on cost calculations. These findings are consistent with the study by (Putri & Ruzikna, 2025), which found that financial literacy has a significant effect on MSME performance, including increased revenue and the effectiveness of sales strategies.

In addition to affecting sales, financial mentoring also improves the operational efficiency and effectiveness of MSMEs. Efficiency is reflected in the entrepreneurs’ ability to reduce unproductive expenses, while effectiveness is seen in the business’s ability to achieve its targets with the available resources. One of the incubated MSMEs expressed:

Now I know which expenses can be reduced. It’s not just about selling more, but also about keeping the money under control.” (Informant U2 – Incubated MSME)

These findings align with (Latifa & Nainggolan, 2025), who concluded that increased accounting knowledge and financial management enhance MSME operational efficiency and improve overall business performance. With proper record-keeping, MSMEs focus not only on increasing sales volume but also on optimizing costs, thereby achieving more sustainable business profits.

Furthermore, the enhancement of financial capacity encourages MSMEs to undertake more structured business planning, particularly in decisions related to business expansion and workforce growth. One of the incubated MSMEs explained this shift in approach:

*“If I want to hire additional employees now, I first calculate whether sales can cover their salaries or not. So I don’t just add staff arbitrarily.” (Informant U2 – Incubated MSME)*

This indicates that financial mentoring improves business management effectiveness by minimizing the risk of operational cost overruns. (Astini et al., 2024) also emphasizes that financial literacy plays a crucial role in enhancing MSMEs’ decision-making effectiveness, particularly regarding business planning and development.

Improved financial capacity also strengthens MSMEs’ administrative readiness to access financing and external support programs. With better-organized financial statements, MSMEs have performance data that can be accounted for. This aligns with the findings of (Saidi et al., 2025), which state that financial management systems and financial literacy influence MSMEs’ financial performance by improving accountability and business risk control.

The development of financial capacity through mentoring serves as a key mechanism for improving the performance of assisted MSMEs. Mentoring not only enhances technical skills in record-keeping but also cultivates a more rational, efficient, and effective managerial mindset. Increases in sales, cost control, and improved business decision-making demonstrate that MSME performance has improved in a tangible and sustainable manner.

## CONCLUSION

This study shows that the financial capacity of assisted MSMEs was initially still low, as indicated by the absence of systematic financial record-keeping, the mixing of personal and business finances, and business decision-making that was not data-driven. This condition reflects the weak internal capacity of MSME owners to manage business finances in a rational and measured manner. The financial capacity development model implemented by the business incubator through training and gradual mentoring has proven capable of encouraging changes in MSME financial behavior. Continuous and contextual mentoring helps business owners understand the importance of financial record-keeping, separating business and personal finances, and using financial information as a basis for business decision-making.

The impact of financial capacity development is evident in the improved performance of MSMEs, both in terms of operational efficiency and effectiveness as well as sales performance. Assisted MSMEs become better able to control costs, set prices rationally, and plan business development more structurally. These findings confirm that business incubators play a strategic role in building the financial capacity of MSMEs sustainably through an integrated mentoring approach based on the real needs of business owners.

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