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Comparison of the Role of Financial Inclusion, Financial Technology, and Institutional Quality on the Growth of MSMEs in Indonesia and Malaysia

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Abstract

The growth of micro, small, and medium enterprises (MSMEs) is influenced by various factors, including financial inclusion, financial technology (fintech), and institutional quality. Although these three factors have been widely studied, comparative research comparing their roles in Indonesia and Malaysia is still limited. This study aims to analyze and compare the role of financial inclusion, financial technology, and institutional quality on the growth of MSMEs in both countries. The research uses a qualitative approach with a comparative design. Data is obtained through documentation techniques sourced from scientific articles, government reports, international organization publications, and relevant policy documents. Data analysis is carried out qualitatively through data reduction, data presentation, conclusion drawn, and strengthened by source triangulation to increase the credibility of findings. The results of the study show that financial inclusion, financial technology, and institutional quality have an important role in encouraging the growth of MSMEs in Indonesia and Malaysia. Malaysia has shown excellence in institutional quality, financial inclusion levels, and maturity of the fintech ecosystem, while Indonesia is experiencing rapid development but still faces challenges in equitable access to financing, financial literacy, and institutional effectiveness. These findings show that the growth of MSMEs requires synergy between expanding access to finance, strengthening digital innovation, and improving institutional quality. This research contributes through a cross-border comparative perspective that can be the basis for policy formulation in strengthening a sustainable MSME ecosystem.

Keywords: financial inclusion; financial technology; institutional quality; MSME growth; Indonesia; Malaysia.

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INTRODUCTION

Globally, micro, small, and medium enterprises (MSMEs) are widely recognized as a backbone of economic activity, employment creation, and inclusive growth, particularly in developing and emerging economies. Nevertheless, MSMEs in these

economies continue to face persistent structural constraints, most notably limited access to formal finance, low adoption of digital technologies, and business environments shaped by uneven institutional quality (Arner et al., 2022; Rasheed et al., 2019).

In response, financial inclusion has increasingly been positioned on the international development agenda as an enabler of broader socio-economic development, as it expands access to payment, savings, and credit services for households and small businesses (Mishra et al., 2024). At the same time, the rapid diffusion of financial technology has reshaped the delivery of financial services by offering new channels to reduce the information asymmetries and high transaction costs that have traditionally excluded smaller enterprises from the formal financial system (Abad-Segura et al., 2020). These global dynamics are particularly relevant to Southeast Asia, where Indonesia and Malaysia, despite their geographical proximity and similar economic aspirations, display markedly different levels of financial system maturity and governance quality.

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia continue to show positive development and become one of the main pillars of the national economy. Based on data from the Ministry of Cooperatives and SMEs, the number of MSMEs increased from 62,922,617 units in 2017 to 64,194,057 units in 2018 or grew by 2.02%, then increased again to 65,465,497 units in 2019 with a growth of 1.98%. Until 2022, around 8.71 million MSMEs have been registered on the risk-based business licensing platform. The contribution of MSMEs is also very significant, absorbing around 97% of the workforce, contributing 60.3% to the Gross Domestic Product (GDP), and contributing 14.4% to national exports in 2021.

The data shows that the sustainability of MSME growth is a strategic issue for Indonesia's economic development. However, the amount of this contribution has not been fully followed by an increase in business management capacity, especially in the aspect of financial management. Many MSME actors are still unable to separate personal and business finances, thus hindering access to financing, business decision-making, and business sustainability (Astini et al., 2024). This condition shows that the growth in the number of MSMEs is not necessarily followed by an improvement in the quality of their supporting ecosystems.

Similar problems are also encountered in Malaysia even though the government has developed various policies and programs to strengthen the MSME sector. Through the Ninth Malaysia Plan and the Third Industrial Master Plan, the government seeks to increase the competitiveness of MSMEs through strengthening innovation, technology, and business capacity. However, MSMEs in Malaysia still face obstacles in obtaining access to formal financing, so some business actors still rely on informal funding sources at relatively high costs (Kurniasih & Heliantono, 2024).

The similarity of challenges faced by Indonesia and Malaysia shows that the growth of MSMEs is not only influenced by the number of business actors or the

amount of government support, but also by the quality of the financial and institutional ecosystems that support business activities. Therefore, the comparison of the two countries is important to understand how different policies and institutional systems affect the development of MSMEs. One of the factors that plays a role in strengthening the ecosystem is financial inclusion.

Financial inclusion aims to expand public access to various formal financial products and services so that MSME actors can obtain financing, payment facilities, savings, and other financial services according to their business needs (Holle et al., 2023). However, access to financial services has not automatically resulted in an increase in business performance if it is not supported by the ability of business actors to understand and utilize these services. Therefore, financial literacy is a supporting factor that allows MSME actors to make more rational financial decisions, manage risks, and utilize financial services optimally. Thus, the effectiveness of financial inclusion cannot be separated from the ability of business actors to use the available services.

In addition to the financial aspect, the quality of the institution is also a factor that determines the effectiveness of MSME development. Institutional quality reflects the effectiveness of governance, legal certainty, regulatory quality, political stability, and accountability in creating a conducive business environment. Quality institutions will facilitate access to licensing, increase business certainty, expand access to financing, and encourage innovation so as to support the growth of MSMEs (Romadi & Jaharuddin, 2024). On the other hand, inefficient bureaucracy, regulatory uncertainty, and weak governance can reduce the effectiveness of various MSME development programs. Therefore, the relationship between financial inclusion, financial technology developments, and institutional quality needs to be analyzed in an integrated manner because these three factors complement each other in forming a business ecosystem.

Previous research has generally examined these factors separately. Abad et al. (2020) show that low financial literacy causes MSME actors to not be able to manage their businesses systematically and have not utilized fintech services optimally. Syahrani & Pradesa, (2023) found that increasing financial literacy and financial inclusion has an effect on the increasing use of financial technology by MSMEs. Meanwhile, Sihombing & Masdiantini, (2025) explained that the use of financial technology, financial literacy, and financial inclusion contributes to improving the performance of MSMEs. However, these studies still focus on the relationship between variables within a country and have not considered how institutional quality as a contextual factor can affect the relationship. In addition, there is still limited research that compares conditions between countries with different characteristics of financial systems and governance, so that the mechanism that explains the variation in MSME growth has not been comprehensively described.

Based on these gaps, this study offers a cross-border comparative approach by analyzing the role of financial inclusion, financial technology, and institutional quality on the growth of MSMEs in Indonesia and Malaysia. The contribution of this research lies not only in the incorporation of the three variables in one analytical framework, but also in the use of a comparative perspective to explain how differences in the financial system and institutional quality affect the growth of MSMEs in both countries.

Thus, this research is expected to provide a more comprehensive understanding of the factors that support the growth of MSMEs while producing more relevant policy implications for developing countries. Based on these objectives, this study aims to analyze and compare the role of financial inclusion, financial technology, and institutional quality on the growth of MSMEs in Indonesia and Malaysia and identify the factors that contribute most dominantly in supporting the growth of MSMEs in each country.

The urgency of this research stems from three considerations. First, MSMEs constitute the dominant form of enterprise and the largest source of employment in Indonesia, so that constraints on their growth directly affect national employment and income distribution. Second, the gap between Indonesia's current financial inclusion achievement and its targets of 93% in 2029 and 98% in 2045 (Financial Services Authority, 2026) calls for evidence-based policy references, and Malaysia's relatively more mature financial and institutional ecosystem offers a relevant regional benchmark.

Third, the accelerating digitalization of financial services in both countries makes it increasingly important to understand whether fintech expansion can drive MSME growth on its own or whether it depends on supportive institutional conditions. Without such an integrated comparative understanding, MSME development policies risk being designed in a fragmented manner that treats access to finance, digital innovation, and governance as separate issues.

In terms of benefits, this study is theoretically expected to enrich the MSME literature by offering an integrated comparative framework that positions institutional quality as a contextual factor shaping the roles of financial inclusion and fintech in MSME growth. Practically, the findings are expected to serve as a reference for policymakers, including the Financial Services Authority (OJK), Bank Indonesia, and the ministries responsible for MSME development, as well as for financial institutions and fintech operators, in designing more coordinated MSME empowerment programs.

In terms of implications, the comparison suggests that efforts to strengthen MSMEs in Indonesia should not rely solely on expanding account ownership or the number of digital platforms, but should be accompanied by improvements in financial literacy, regulatory certainty, and inter-institutional coordination. These

implications are also relevant to other developing countries in the ASEAN region that face similar challenges in building a sustainable MSME ecosystem.

RESEARCH METHOD

This study used a qualitative approach with a comparative study design based on library research. The research design was chosen because the purpose of the study was to compare the conditions of financial inclusion, financial technology (fintech), and institutional quality in supporting the growth of micro, small, and medium enterprises (MSMEs) in Indonesia and Malaysia. A comparative approach was used to identify the similarities, differences, and characteristics of each country based on empirical evidence obtained from various scientific sources and official documents.

The data used were secondary data derived from reputable scientific articles, reports from government agencies, publications of international organizations, and policy documents relevant to the research topic. The main sources included publications by the Financial Services Authority (OJK), Bank Indonesia, Bank Negara Malaysia (BNM), SME Corporation Malaysia, the World Bank (Global Findex), the International Monetary Fund (IMF), the Asian Development Bank (ADB), as well as various national and international journals that discussed financial inclusion, fintech, institutional quality, and MSME growth in Indonesia and Malaysia.

Data collection was carried out through documentation study techniques. The stages of data collection included identifying documents relevant to the research objectives, selecting sources based on their credibility and year of publication, recording important information from each document, and grouping the data according to the research variables. The research instrument used in this study was a structured documentation checklist complemented by a data-extraction matrix developed by the authors.

The checklist was used to screen each document according to its relevance to the research objectives, source type, publisher credibility, and year of publication, while the data-extraction matrix was used to record, for each source, the country (Indonesia or Malaysia), the research variable, the corresponding indicator, the key data or findings, and the bibliographic details, so that all documentary data could be coded consistently and traced back to their original sources. For the financial inclusion variable, the data were classified based on four main indicators, namely account ownership at formal financial institutions, access to financial services, use of digital payments, and utilization of digital financial services.

These indicators were selected because they were consistently used in the Global Findex (World Bank), the OJK National Survey on Financial Literacy and Inclusion (SNLIK), and Bank Negara Malaysia publications, thereby allowing for a comparable assessment between Indonesia and Malaysia. Meanwhile, data on

fintech, institutional quality, and MSME growth were classified based on indicators widely used in the literature and official reports from the respective institutions.

Data analysis used qualitative comparative analysis techniques through several stages. First, data from various sources were synthesized to obtain relevant information about each research variable. Second, the data were grouped based on the indicators for each variable and then compiled into a comparison matrix between Indonesia and Malaysia. Third, a comparative analysis was conducted to identify the similarities, differences, advantages, and challenges in each country.

The final stage involved interpreting the results by linking the comparative findings to relevant theories and previous research findings, thereby providing an explanation of the role of financial inclusion, fintech, and institutional quality in supporting MSME growth. To increase the credibility of the research results, source triangulation was used. Triangulation was carried out by comparing information derived from scientific articles, government reports, publications from international organizations, and policy documents.

Information that showed consistency across sources was used as the basis for compiling the results of the analysis, while differences in the information were further analyzed by considering the publication date, policy context, and methodology of each source. Through this process, the research results were expected to have a higher level of validity and reliability.

RESULT AND DISCUSSION

Comparison of Financial Inclusion of Indonesia and Malaysia

Comparative analysis on the dimension of financial inclusion was conducted based on a synthesis of various scientific literature, government reports, and publications of international institutions. The comparison is focused on four main indicators, namely account ownership at formal financial institutions, access to financial services, use of digital payments, and utilization of digital financial services. The four indicators were chosen because they are consistently used in the Global Findex (World Bank), the National Survey on Financial Literacy and Inclusion (SNLIK) by the Financial Services Authority (OJK), as well as Bank Negara Malaysia's publications in describing the level of financial inclusion of a country.

Table 1. Comparison of Financial Inclusion of Indonesia and Malaysia

Indicator	Indonesia	Malaysia
Account ownership	The financial inclusion index reached 80.51% (SNLIK 2025) with the expansion of account ownership and access to formal financial services.	More than 90% of the adult population already has an account with a formal financial institution.

Access to financial services	Supported by the KUR program, Laku Pandai, Bank Agents, QRIS, and digitization of financial services.	Almost all sub-districts have access to financial services within a radius of 10 km with the support of a wide network of financial institutions.
Digital payments	The use of QRIS, digital wallets, mobile banking, and electronic transfers continues to grow.	The use of DuitNow QR, e-wallets, and mobile banking has become part of people's daily transactions.
Digital financial services	Developing through fintech and digital banking with a focus on expanding access to the unbanked and MSMEs.	Integrated with a more mature ecosystem of digital banks, fintech, and digital financial services.

Source: Compiled by the author based on the synthesis of Bank Negara Malaysia, (2023); Ikmanila & Djastuti, (2025); Mishra et al., (2024).

Based on the results of a synthesis of various literatures, Indonesia and Malaysia show the same tendency to make financial inclusion part of economic development strategies and MSME development. The two countries have consistently expanded public access to formal financial services through policies that encourage increased account ownership, expanded access to financing, and the development of digital payment systems (Kamis, 2025). Despite having similar policy directions, the comparative results show that the level of maturity of the financial inclusion ecosystem in the two countries is still different.

In Indonesia, financial inclusion is indicated to have experienced significant development in recent years. Based on the 2025 National Survey on Financial Literacy and Inclusion (SNLIK), the national financial inclusion index reached 80.51%, while the government targets an increase to 93% in 2029 and 98% in 2045 through the RPJMN and RPJPN. Based on the synthesis of the literature, these developments are related to various government policies in expanding access to formal financial services, including through the implementation of the Quick Response Code Indonesian Standard (QRIS), the development of digital banking services, the expansion of financial service agents, and the increase in the use of financial technology (Ikmanila & Djastuti, 2025).

This condition shows a tendency that digital transformation is starting to become one of the important instruments in expanding people's access to financial services. On the contrary, the results of the synthesis show that Malaysia has a relatively more mature level of financial inclusion than Indonesia. Data Bank Negara

Malaysia, (2023) reports that more than 90% of the adult population already has an account with a formal financial institution and about 99% of the mukim area has gained access to financial services within a 10-kilometer radius.

This condition is indicated to be related to the availability of more equitable digital infrastructure, high internet and smartphone penetration rates, and the sustainable implementation of financial inclusion policies carried out by Bank Negara Malaysia. In addition, the use of DuitNow QR, digital wallets, and digital bank operations shows that digital financial services have become part of people's economic activities. Based on the synthesis of the literature, the development of digital services in Malaysia is indicated to have been able to reach groups of people who previously did not have optimal access to banking services (Tun-Pin et al., 2019).

The comparative results also show that there are differences in policy orientation in the development of financial inclusion in the two countries. Indonesia is still focusing on expanding the reach of financial services for unbanked and underbanked groups, including MSME actors who have not yet gained access to formal financing. Meanwhile, Malaysia shows a tendency to optimize the utilization of digital financial services through integration between payment systems, digital banking, and financial technology innovations. Thus, the differences found are not only related to the level of account ownership, but also reflect the difference in the maturity level of the digital financial ecosystem in the two countries.

Based on the results of the comparative synthesis, there are several similarities that can be identified. First, Indonesia and Malaysia both make financial inclusion a strategic policy in supporting MSME development and economic growth. Second, both countries show an increasing tendency to use digital payments as part of the transformation of the financial system. Third, governments in both countries are actively encouraging the digitization of financial services through collaboration between the banking sector, financial institutions, and fintech operators.

Meanwhile, there are quite clear differences between the two countries. Indonesia still faces challenges in equitable access to financial services, financial literacy, and access to formal financing for some MSME actors. In contrast, Malaysia shows more established conditions with high account ownership rates, more equitable digital infrastructure, and more comprehensive integration of digital financial services. This difference indicates that Indonesia is still in the stage of expanding financial inclusion, while Malaysia has entered the stage of optimizing the use of digital financial services.

Comparison of *Financial Technology* Indonesia and Malaysia

Comparative analysis on the dimension of financial technology (fintech) was carried out based on a synthesis of various scientific literature, regulatory reports, and publications of international institutions that discuss the development of

financial technology in Indonesia and Malaysia. The comparison is focused on five main indicators, namely digital payments, digital financing (peer-to-peer lending), digital banking, digital investment, and regulatory support for financial innovation. The indicator was chosen because it is consistently used in various publications of the Financial Services Authority (OJK), Bank Indonesia, Bank Negara Malaysia (BNM), and the International Monetary Fund (IMF) to describe the development of the fintech ecosystem.

Table 2. Comparison of Financial Technology Indonesia and Malaysia

Indicator	Indonesia	Malaysia
Digital payments	The use of QRIS, GoPay, OVO, DANA, LinkAja, and mobile banking continues to increase as part of the transformation of the national payment system.	The use of DuitNow QR, Touch 'n Go eWallet, ShopeePay, and mobile banking has been integrated into people's economic activities.
Digital financing	Dominated by *peer-to-peer lending platforms* such as Amartha, Modalku, and Kredivo which expand access to MSME financing.	Digital financing is developing through fintech, Islamic fintech, and collaboration with formal financial institutions.
Digital banking	Digital transformation is carried out by conventional banks and digital banks that are starting to develop.	Five digital banks have been operating with the regulatory support of Bank Negara Malaysia.
Digital investment	Developed through the Bibit, Ajaib, Bareksa, and application-based investment services platforms.	Digital investment is integrated with banking, fintech, and digital capital market services.
Regulation and innovation	Supported by OJK through the Fintech Roadmap and the supervision of Digital Financial Innovation (IKD), as well as the Indonesian Payment System Blueprint 2030 by Bank Indonesia.	Supported by the Financial Sector Blueprint, Regulatory Sandbox, and Bank Negara Malaysia's financial digitalization policy.

Source: Compiled by the authors based on the synthesis of Arner et al., (2022); Azizah & Khayati, (2026); Hendrawan, M. R. N. A., Marits, S. A., & Herman, (2023); Nuryakin et al., n.d.; Samsuddin et al., (2021); Supahan, (2024)

Based on the results of the literature synthesis, Indonesia and Malaysia show the same tendency to utilize financial technology as part of the transformation of the national financial system. In both countries, the development of fintech is indicated to be related to the increasing use of digital financial services, expanding access to financing, and digitizing people's economic activities. However, the comparative results show that the characteristics of fintech developments in Indonesia and Malaysia have different orientations according to economic conditions, digitalization levels, and policies of each country.

In Indonesia, the development of fintech is indicated to be still oriented towards expanding access to financial services, especially for people who have not been fully served by formal financial institutions (unbanked and underbanked) and MSME actors. These developments are dominated by four main sectors, namely digital payment systems, peer-to-peer lending-based financing, digital investment, and Digital Financial Innovation (IKD) (Nuryakin et al., 2019).

In the digital payment sector, various platforms such as GoPay, OVO, DANA, and LinkAja have become part of people's daily transaction activities (Hendrawan, M. et.al, 2023). Meanwhile, digital financing platforms such as Amartha, Modalku, and Kredivo show a tendency to expand financing alternatives for MSMEs that have not fully gained access to credit from conventional banking (Arner et al., 2022). In addition, the development of digital investment platforms such as Bibit, Ajaib, and Bareksa shows the increasing public access to technology-based investment instruments with relatively affordable capital (Azizah & Khayati, 2026).

The results of the synthesis also show that the development of fintech in Indonesia is related to regulatory support carried out by the Financial Services Authority (OJK) and Bank Indonesia through the development of the Fintech Development and Strengthening Roadmap, the supervision of Digital Financial Innovation (IKD), and the implementation of the Indonesian Payment System Blueprint 2030. These various policies show the government's tendency to create a more inclusive digital financial ecosystem while maintaining financial system stability through supervision of fintech operators.

In Malaysia, the comparative results show that the development of fintech has entered a more mature stage as part of the transformation of the national digital economy. Based on (Samsuddin et al., 2021), the high penetration of smartphones and internet connectivity are factors that support the widespread use of digital financial services. The use of electronic wallets such as Touch 'n Go eWallet, ShopeePay, and DuitNow QR has been integrated in various people's transaction activities. In addition, collaboration between digital payment platforms, such as the integration of Google Pay with local payment services, shows the strengthening of a more integrated digital payment ecosystem (Supahan, 2024).

In addition, Malaysia has developed a fintech ecosystem through policies that support digital innovation. The Financial Sector Blueprint 2022–2026, the

implementation of the Regulatory Sandbox, and the operation of five digital banks show institutional support for financial technology development. Hossain et al., (2024) explained that the Malaysian fintech market is projected to continue to grow as the contribution of the digital economy to the national Gross Domestic Product (GDP) increases. Based on a synthesis of various sources, these conditions show a tendency that fintech in Malaysia is not only being utilized as an alternative to financial services, but has become part of the overall digital economy transformation strategy.

The results of the comparative analysis show that there are several similarities between Indonesia and Malaysia. First, both countries are using fintech to expand public access to digital financial services. Second, digital payments are the fastest-growing fintech segment in both countries. Third, regulators in both countries show commitment to building a fintech ecosystem through the preparation of regulations and supervision of financial technology innovations. Meanwhile, there is a fairly clear difference in the orientation of fintech development. Indonesia shows a tendency to use fintech as an instrument to expand financial inclusion, especially through digital payment services and financing for MSMEs.

On the contrary, Malaysia focuses more on the integration of fintech with the national financial system through the development of digital banks, regulatory sandboxes, Islamic finance innovations, and strengthening the digital economy. This difference indicates that Indonesia is still in the stage of expanding the use of fintech to improve access to financial services, while Malaysia has entered the stage of optimizing the fintech ecosystem as part of a strategy to increase the competitiveness of the digital economy.

Comparison of the Quality of Indonesian and Malaysian Institutions

Comparative analysis on the dimension of institutional quality was carried out through five indicators, namely government effectiveness, regulatory quality, ease of doing business, institutional coordination in the development of MSMEs, and policy support for MSMEs.

Table 3. Comparison of the Quality of Indonesian and Malaysian Institutions

Indicator	Indonesia	Malaysia
Effectiveness of government	Bureaucratic reform and digitalization of public services continue to be carried out, but implementation still faces the challenge of inter-institutional coordination.	Governance is relatively more effective with more integrated policy coordination.
Quality of regulation	Regulatory simplification is carried out through electronic-	Business regulations are simpler, more stable, and

Indicator	Indonesia	Malaysia
	based licensing reform and OSS-RBA, but implementation in the field is still diverse.	support the development of investment and MSMEs.
Ease of Doing Business	Business licensing is increasingly digitized, but some MSME actors still face administrative obstacles and access to information.	The licensing process is relatively simpler with the support of an integrated institutional system.
Institutional coordination	MSME development programs involve many ministries and institutions, so it requires strengthening coordination.	The development of MSMEs is coordinated in a more structured manner through SME Corp Malaysia and Bank Negara Malaysia.
MSME policy support	Focus on expanding financing, digitizing MSMEs, training, and strengthening financial literacy.	Focus on innovation, productivity improvement, export orientation, and integration of MSMEs in the global supply chain.

Source: Compiled by the author based on the synthesis of Prasodjo, (2025); Teoh et al., (2022).

Based on the results of the literature synthesis, the quality of institutions in Indonesia and Malaysia shows the same tendency, namely directed to create a business environment that supports the development of MSMEs through the preparation of regulations, the provision of public services, and financing policies. However, the results of the comparative analysis show that the level of effectiveness of policy implementation and institutional coordination in the two countries has different characteristics.

In Indonesia, the quality of institutions is indicated to have improved through various bureaucratic reforms, digitization of public services, and simplification of the business licensing process. The implementation of the Online Single Submission Risk-Based Approach (OSS-RBA) system, strengthening digital-based public services, and various MSME development programs show the government's commitment to creating a more conducive business environment. Based on the synthesis of literature, these various policies are related to efforts to increase ease of access to licensing, expand access to formal financing, and accelerate the digital transformation of MSMEs.

However, the results of the synthesis also show that policy implementation in Indonesia still faces several challenges. The study Prasodjo, (2025) explained that some MSME actors still experience obstacles in obtaining formal financing due to

limited collateral, low quality of financial statements, and suboptimal bankability levels. In addition, the implementation of MSME development programs involves various ministries and institutions so that policy coordination is not fully integrated. This condition shows a tendency that the quality of institutions in Indonesia is still at the stage of strengthening coordination and increasing the effectiveness of policy implementation.

On the other hand, the comparative results show that Malaysia has a relatively more mature institutional quality in supporting the development of MSMEs. The findings Yuan, Y. et.al, (2020) explain that Bank Negara Malaysia has developed a structured MSME financing policy framework so that business actors have clearer access to formal financing sources. In addition, business regulations that are relatively simple, transparent, and consistent show that there is an institutional environment that supports business activities and investments.

The Malaysian government involves various specialized institutions such as SME Corp Malaysia, in coordinating MSME development programs (Teoh et al., 2022). This approach shows a tendency for more integrated institutional coordination, starting from increasing the capacity of human resources, developing innovation, digitizing businesses, to expanding international market access. Based on the literature synthesis, this condition is related to the increasing export orientation and integration of Malaysian MSMEs in the global supply chain.

The results of the comparative analysis show some similarities between Indonesia and Malaysia. First, both countries place institutional quality as an important part of supporting the development of MSMEs through the provision of regulations, public services, and business development programs. Second, the governments of both countries have shown a commitment to digitizing public services and simplifying the licensing process. Third, policy support for access to financing and capacity building of MSMEs is part of the economic development strategy in both countries.

However, there are quite clear differences in the institutional characteristics of the two countries. Indonesia shows a tendency to focus more on improving the bureaucratic system, expanding access to services, and improving coordination between institutions. On the other hand, Malaysia focuses more on the effectiveness of policy implementation, regulatory certainty, and integrated institutional coordination in supporting innovation and competitiveness of MSMEs. These differences indicate that the quality of institutions in Malaysia has been at the stage of strengthening the effectiveness of governance, while Indonesia is still in the stage of institutional consolidation and improvement of policy implementation.

Comparison of the Growth of Indonesian and Malaysian MSMEs

Comparative analysis on the growth dimensions of Micro, Small, and Medium Enterprises (MSMEs) was carried out based on the synthesis of various scientific

literature, government reports, and publications of international institutions. In this study, the growth of MSMEs was analyzed using five indicators, namely contribution to Gross Domestic Product (GDP), labor absorption, business productivity, digitalization level, and export orientation. The five indicators were chosen because they are consistently used by the Ministry of MSMEs of the Republic of Indonesia, SME Corp Malaysia, the World Bank, and the OECD in describing the development of the MSME sector.

Table 4. Comparison of the Growth of Indonesian and Malaysian MSMEs

Indicator	Indonesia	Malaysia
Contribution to GDP	MSMEs make a dominant contribution to national GDP, but most of them still come from micro businesses.	MSMEs make a significant contribution to GDP with a more diverse and productive business composition.
Labor absorption	It absorbs most of the national workforce and becomes the backbone of the domestic economy.	It contributes greatly to the absorption of labor with the dominance of the modern manufacturing and service sectors.
Business productivity	Productivity still varies due to limited capital, technology, and managerial capacity.	Productivity is relatively higher with the support of innovation, technology, and industrial integration.
Digitization of MSMEs	Digitalization continues to grow through e-commerce, digital payments, and various government programs.	Digitalization has become part of the MSME business strategy with the support of a more mature digital ecosystem.
Export orientation	Most MSMEs are still oriented towards the domestic market, although export programs continue to expand.	MSMEs have a stronger export orientation and are integrated in the global supply chain.

Source: Compiled by the author based on the synthesis of Rahman & Rahim, (2025); Tambunan, (2019).

The results of the literature review show that Indonesia and Malaysia show the same tendency in placing the MSME sector as one of the main pillars of national economic development. In both countries, MSMEs are indicated to have an important role in creating jobs, encouraging domestic economic activities, and improving people's welfare (Sihombing & Masdiantini, 2025). However, the results of the comparative analysis show that the growth characteristics of MSMEs in Indonesia

and Malaysia have quite clear differences, especially in business structure, productivity levels, digitalization, and market orientation.

In Indonesia, the results of the synthesis show that the MSME sector has a very large number and makes a dominant contribution to the national economy. The report Tambunan, (2019) explains that more than 90% of MSME actors are still dominated by micro businesses with a relatively small business scale. This condition is indicated to be related to limited access to capital, managerial capacity, business productivity, and uneven use of digital technology. Based on various literature, the government has implemented various programs such as People's Business Credit (KUR), digitization of MSMEs, business assistance, and strengthening market access as an effort to expand the capacity and competitiveness of MSMEs. These programs show a tendency for a gradual transformation towards a more modern and inclusive business ecosystem.

In addition, the digitalization of MSMEs in Indonesia has also shown quite rapid development. The use of e-commerce platforms, digital payments, social media, and digital bookkeeping applications is increasingly used by business actors to support business activities. This development is related to the increasing use of digital technology in marketing, transaction, and business management activities. However, the level of technology adoption still shows variations between regions and between types of businesses so that the productivity of MSMEs has not developed evenly.

On the other hand, the comparative results show that the growth of MSMEs in Malaysia is characterized by a relatively more organized business structure and has a higher level of productivity. Research Rahman & Rahim, (2025) explains that many MSMEs in Malaysia have been integrated into the global supply chain, especially in the manufacturing, technology, and value-added services sectors. These conditions are indicated to be related to the quality of digital infrastructure, ease of obtaining financing, and more integrated institutional support.

The literature also shows that digitalization has become part of the MSME development strategy in Malaysia. Support for technological innovation, digital transformation, and business capacity building shows a tendency that most MSMEs have utilized digital technology not only for marketing, but also in operational management, logistics, and international market expansion. In addition to contributing to national economic growth, Malaysian MSMEs also have a stronger export orientation so that they are able to expand their competitiveness in regional and global markets.

Based on the results of the comparative analysis, there are several similarities between Indonesia and Malaysia. First, both countries make MSMEs a strategic sector in national economic development. Second, the governments of both countries have shown a commitment to supporting the digitalization of MSMEs through the development of digital technology, access to financing, and business

actor capacity building programs. Third, MSMEs in both countries have a significant contribution to labor absorption and domestic economic activities.

Meanwhile, there are quite prominent differences. Indonesia shows a tendency to have a larger number of MSMEs with the dominance of micro businesses that are still oriented to the domestic market. On the other hand, Malaysia shows a relatively more productive MSME structure, has a stronger export orientation, and is more integrated in the global supply chain. This difference indicates that the growth of MSMEs in Malaysia is more shown through increased productivity and competitiveness, while in Indonesia it is still focused on expanding business scale, increasing the capacity of business actors, and digital transformation.

Analytical Discussion on Research Implications and Contributions

The results of the comparative analysis show that the relationship between financial inclusion, financial technology (fintech), institutional quality, and MSME growth cannot be understood as a stand-alone relationship, but is an interrelated ecosystem. Based on the synthesis of the results of previous research, these three factors show a tendency to complement each other in forming a business environment that supports the development of MSMEs. Therefore, the difference in the condition of MSMEs in Indonesia and Malaysia is indicated to be related to the level of access to financial services as well as the level of maturity of digital transformation and the effectiveness of institutions that support business activities (Harbert & Arifin, 2025; Jannah & Budiarti, 2022).

In the dimension of financial inclusion, the comparative results show that Indonesia and Malaysia both place expanding access to financial services as part of their economic development strategy. However, the policy orientation of the two countries shows different characteristics. Indonesia is still focusing on expanding public access to formal financial services, especially for *the unbanked* and *underbanked* groups, while Malaysia has shown a tendency to have entered the stage of optimizing the use of digital financial services. The difference is related to the level of account ownership, equal access to financial services, and the relatively higher adoption rate of digital payments in Malaysia. This condition shows that access to formal financial services is the foundation for business actors to obtain financing, manage cash flow, and maintain business continuity (Rasheed et al., 2019).

The results of the analysis also show that the development of financial technology (fintech) in the two countries has different characteristics. In Indonesia, fintech is indicated to develop as an alternative to expanding access to financing and digital payment systems, especially for MSMEs that have not fully obtained services from formal financial institutions. In contrast, Malaysia shows a tendency to build fintech as part of a more integrated digital economy transformation through the development of digital banks, regulatory sandboxes, and financial services innovation. Fintech can provide alternative financing, as well as become a means of

digitizing business activities that support the transformation of MSMEs (Suryanto, S., & Dai, 2020). Various innovations such as mobile payments, cloud computing, and digital platforms show a tendency to increase operational efficiency while strengthening MSME connectivity with the digital market (Abad-Segura et al., 2020).

In terms of institutional quality, the comparative results show that there is a difference in the level of governance maturity between Indonesia and Malaysia. Malaysia is indicated to have a more integrated institutional system through consistent regulations, more effective inter-agency coordination, and legal certainty that supports business activities. On the contrary, Indonesia still shows challenges in institutional coordination, the effectiveness of policy implementation, and the equitable distribution of the quality of public services. Institutional quality is related to the creation of business certainty, transaction cost efficiency, and increased confidence of business actors in the economic system (Digdowiseiso & Sugiyanto, 2021).

When the four dimensions are analyzed in an integrated manner, the results show a consistent pattern. Indonesia shows a tendency to build an MSME ecosystem through strategies to expand access to finance, digitize services, and empower micro businesses. On the other hand, Malaysia shows a development pattern that focuses more on increasing productivity, innovation, and international competitiveness through institutional strengthening and digital technology integration. Thus, the difference in the growth achievement of MSMEs in the two countries is indicated to be related to the level of fintech development or financial inclusion individually, but also to the quality of institutions that support the implementation of policies more effectively.

Based on the synthesis of all findings, this study shows that financial inclusion, fintech, and institutional quality form complementary relationships in supporting the growth of MSMEs. The development of MSMEs requires an integrated approach through expanding access to financing, the use of adaptive financial technology, and institutional quality support that is able to create regulatory certainty, policy coordination, and a conducive business environment (Harbert & Arifin, 2025). Therefore, the results of the comparison between Indonesia and Malaysia indicate that the success of MSME development is more accurately understood as the result of synergy between financial inclusion, fintech, and institutional quality than as a result of a single factor.

CONCLUSION

Based on the comparative analysis, this study found that financial inclusion, financial technology (fintech), and institutional quality are important components of MSME development in Indonesia and Malaysia. Indonesia focuses on expanding access to financial services, MSME digitalization, and empowering micro-enterprises, while Malaysia has a more mature ecosystem characterized by stronger institutional

quality, integrated regulations, and more effective utilization of fintech. The findings show that MSME growth depends on the synergy among financial inclusion, fintech, and institutional quality as an interconnected ecosystem.

Therefore, Indonesia should strengthen institutional quality, expand access to formal financing, and improve financial and digital literacy. This study provides a comparative framework for understanding MSME growth in both countries. Future research could empirically test this framework using quantitative methods and extend the analysis to other ASEAN countries.

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