



Financial Inclusion, Literacy, and SME Resilience: Emotional Well-Being Mediation

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Abstract—MSMEs play a vital role in Ambon City's economy but remain vulnerable to financial instability due to limited financial knowledge, restricted access to formal financial services, and increasing operational challenges. This study investigates the effects of financial literacy and financial inclusion on MSME financial resilience, with emotional well-being as a mediating variable. A quantitative explanatory approach was employed using survey data from 71 MSME owners selected through purposive sampling. The data were analyzed using SEM-PLS with SmartPLS software. The results show that financial literacy positively affects emotional well-being ($\beta = 0.423$, $p < 0.001$) and financial resilience ($\beta = 0.336$, $p = 0.008$). Financial inclusion also positively influences emotional well-being ($\beta = 0.322$, $p = 0.006$), although its direct effect on financial resilience is insignificant ($\beta = -0.214$, $p = 0.069$). Emotional well-being has the strongest positive effect on financial resilience ($\beta = 0.633$, $p < 0.001$). The model explains 45.2% of the variance in emotional well-being and 57.6% of the variance in financial resilience, highlighting the importance of psychological factors in strengthening MSMEs' capacity to cope with financial challenges. This study extends Financial Capability Theory by demonstrating that financial capability enhances financial resilience through emotional well-being as a key psychological mechanism. It also strengthens the theory's empirical validity by providing evidence from MSMEs in the archipelagic region of Eastern Indonesia, where limited financial access, high logistics costs, and greater economic vulnerability shape a distinct business environment.

Keywords: financial literacy; financial inclusion; emotional well-being; financial resilience; MSMEs

1. INTRODUCTION

MSMEs have become one of the primary pillars supporting economic activity in Ambon City over the past several years. Their role is reflected not only in the increasing number of businesses but also in their contribution to sustaining the trade, service, and local tourism sectors. Nationally, The MSME sector serves as a major driver of Indonesia's economy, contributing over 60% of the national GDP while absorbing close to 97% of the workforce (Harahap et al., 2025). In Ambon itself, the growth in the number of MSMEs from 14,793 units in 2018 to 29,240 units in 2022 indicates that this sector has increasingly become the community's primary source of income generation (Hehanussa & Istia, 2023). In the context of an archipelagic region where industrial opportunities remain relatively limited, such development holds substantial significance because the sustainability of MSMEs is directly associated with the economic stability of households. Nevertheless, despite this considerable growth, many MSMEs continue to operate under vulnerable business conditions and have not yet established strong financial foundations.

The financial vulnerability of MSMEs in Ambon City arises from interconnected problems that, in many cases, cannot be resolved solely through additional business capital. Many MSME actors still face limited access to formal financing, weak financial administrative capabilities, and high operational costs due to the characteristics of an archipelagic region (Ismanto et al., 2024; Pomeroy et al., 2020). At the same time, personal and business finances are often managed interchangeably, limiting the ability of entrepreneurs to evaluate the actual financial performance of their businesses with precision (Marsiwi & Winanto, 2024). When market pressures intensify such as shifts in consumption patterns or competition from products originating outside the region these weaknesses in financial management become increasingly evident (Choudhari et al., 2025; Napitupulu & Sembiring, 2023; Rohaeni et al., 2025). This situation not only affects business sustainability but also generates psychological pressure among MSME actors, as income uncertainty often influences their sense of security and confidence in managing their businesses.

In a rapidly changing economic environment, the ability of MSMEs to survive can no longer be measured solely by the amount of profit generated, but rather by how effectively businesses can withstand pressure and recover from shocks. The concept of financial resilience has therefore become increasingly relevant because it reflects the capacity of businesses to maintain financial stability, adjust business strategies, and sustain operations amid uncertainty (Agarwal et al., 2025; Chandratreya, 2024; Mohanty, 2025; Thirumalaisamy & Magd, 2024). Many MSMEs are still able to generate income; however, they lack sufficient cash reserves when facing declining demand or increasing production costs (Babiker & Al Sarhani, 2026; Scott-Joseph, 2023). Under such conditions, the ability to manage cash flow and make adaptive decisions becomes highly critical (Pomeroy et al., 2020). Recent discussions on MSME sustainability increasingly emphasize the importance of digital technology adoption and structured risk management as key elements of financial resilience (Lembong et al., 2025; Rumtutuly, 2025). In this context, efforts to strengthen financial resilience extend beyond purely economic concerns, reflecting a broader process of building long-term business adaptability and sustainability.

This view aligns with Financial Capability Theory, which suggests that financial stability is shaped not solely by the level of financial knowledge possessed by individuals or business owners, but also by their capacity to access and make effective use of available financial services and resources. The theory emphasizes that financial capability is formed





through a combination of financial literacy, financial inclusion, and the ability to make appropriate financial decisions under specific economic conditions. In the context of MSMEs in Ambon City, this theory becomes particularly relevant because many business actors have not yet been fully able to transform their financial knowledge and access into sustainable financial resilience. In other words, the ability to withstand economic pressure depends not only on the availability of financial services or financial understanding alone, but also on the preparedness of business actors to manage these resources adaptively and sustainably.

One of the factors most frequently associated with the ability to build financial resilience is financial literacy. Its scope goes far beyond basic knowledge of financial management, encompassing the capacity to evaluate risk, organize spending priorities, and make sound financial judgments (Martino & Ventre, 2023; Patty & Rumtutuly, 2024; Rumtutuly et al., 2025; Turco et al., 2023). In MSME practices, these capabilities often determine whether business actors can maintain business stability either instead become trapped in unstructured financial management. MSME actors with better financial understanding tend to be more disciplined in preparing budgets, distinguishing business and personal monetary resources, and managing credit more cautiously (Perdana et al., 2024; Pratama et al., 2026). Nevertheless, financial knowledge does not automatically result in financial resilience. Its effectiveness largely depends on how such knowledge is implemented in actual business situations, particularly when MSME actors encounter economic pressure and resource limitations.

In addition to financial literacy, financial inclusion is also considered an important factor in supporting the financial resilience of MSMEs. Access to savings, credit, digital payments, and other formal financial services enables business actors to obtain more stable financial support (Deepshikha et al., 2024; Grishanova et al., 2022; Gupta et al., 2025). In Ambon City, the use of QRIS and peer-to-peer lending services has begun to demonstrate benefits, particularly in improving transaction efficiency and creating opportunities for additional business capital (Khameswara et al., 2023; Kuswoyo et al., 2024; Odeta et al., 2023; Rumtutuly & Atahau, 2023). Nevertheless, the utilization of formal financial services remains relatively limited to business actors with stronger administrative capabilities and better financial understanding. In many cases, financial access alone is insufficient if business actors are not adequately prepared to utilize these services optimally. This suggests that the connection between financial inclusion and financial resilience may not emerge through a direct pathway, but may instead be influenced by more fundamental underlying factors.

One factor that has recently gained increasing attention in studies of SME financial resilience is emotional well-being. The emotional condition of business owners often determines how economic pressure is translated into everyday business decisions. When income declines or businesses face market uncertainty, some SME owners experience financial stress that affects their ability to make rational decisions (Hawach & Requejo, 2025; Rafinda et al., 2024; Shcherban et al., 2025). In contrast, business owners with better emotional well-being tend to remain calmer and are more capable of maintaining focus on their long-term business goals (Serna-Zuluaga et al., 2024; Snellman & Hakala, 2020). In this context, financial literacy can help reduce anxiety because business owners better understand how to manage finances effectively, while financial inclusion can create a sense of security through access to formal financing sources (Lestari, Indyastuti, & Setyanto, 2025; Lestari, Indyastuti, Alhamidi, et al., 2025; Marcellin & Sun, 2025; Thangaraj et al., 2025). Thus, emotional well-being appears not merely as a consequence of business conditions but also as a mechanism that influences SME financial resilience.

Despite extensive research exploring the links between financial literacy, financial inclusion, and financial resilience, most previous studies have still viewed these relationships partially. Many studies have focused more on the direct effects among variables without explaining the psychological processes that may influence these relationships (Cai, 2025; Subedi & Bhandari, 2024; Wen et al., 2024). In addition, prior research findings remain inconsistent. Several studies found that contribute positively to the resilience and overall performance of SMEs, while other studies reported weak or even insignificant effects (Abdallah et al., 2025; Kurniasari et al., 2025; Toni et al., 2024; Whajah & Adenutsi, 2024). In contrast, emotional well-being has seldom been examined as a mediating factor in studies of SME financial resilience, despite evidence showing that emotional conditions play an important role in shaping financial behavior and decision-making of business owners (Ismail et al., 2020; Özyeşil et al., 2024; Ravikumar et al., 2022; Thangaraj et al., 2025). This gap in the literature underscores the importance of developing a more comprehensive and integrated research framework.

Ambon City was chosen as the study area because its regional characteristics differ substantially from those found in many other parts of Indonesia. As an archipelagic city in Eastern Indonesia, Ambon faces challenges that are not commonly encountered in major urban areas, ranging from starting from elevated logistics expenses to constrained access to formal financial institutions (Abdallah et al., 2025; Pattipeilohy et al., 2024; Toni et al., 2024). Conversely, SMEs have become the most active sector supporting the local economy due to the limited presence of large-scale industries. Previous studies conducted in the Maluku region revealed that financial inclusion has not been able to significantly improve SME performance (Pattipeilohy et al., 2024; Rehatta & Rumtutuly, 2026), indicating that other factors may also influence this relationship. However, empirical studies examining the relationships among financial literacy, financial inclusion, emotional well-being, and financial resilience within the context of Eastern Indonesia remain very limited. Therefore, Ambon City provides an important context for understanding the dynamics of SME financial resilience more specifically.

Theoretically, this study contributes to the development of Financial Capability Theory by showing that the relationship between financial literacy, financial inclusion, and financial resilience does not operate solely in a direct manner, but is also influenced by a psychological mechanism reflected in emotional well-being. Traditionally, Financial Capability Theory explains that improvements in financial conditions among individuals or business actors are primarily



driven by a combination of financial knowledge and access to financial services; however, it tends to separate psychological factors from the process of building financial resilience. This study extends that conceptual boundary by emphasizing that financial resources alone are not sufficient to generate financial resilience without supportive emotional conditions that enable business actors to cope with pressure, manage risks, and make adaptive decisions. Furthermore, emotional well-being is positioned as a bridging mechanism that connects financial capability to financial resilience, where financial literacy and financial inclusion not only enhance financial capacity but also foster a sense of security, optimism, and better emotional regulation, ultimately strengthening business resilience in the face of economic uncertainty. In this way, the study proposes a more comprehensive model by integrating both financial and psychological dimensions in explaining the formation of financial resilience. In addition, this research enriches the literature by providing empirical evidence from the context of island regions in Eastern Indonesia, which have been relatively underexplored. In these areas, MSMEs face limited access, high logistics costs, and greater economic vulnerability compared to regions with more developed financial infrastructure, thereby expanding the external validity and applicability of Financial Capability Theory in developing economies and island-based contexts.

This study aims to develop and empirically validate an integrative Financial Capability Theory model by examining the direct effects of financial literacy and financial inclusion on MSME financial resilience, as well as the mediating role of emotional well-being in explaining how financial capability is transformed into financial resilience. Specifically, this study seeks to determine whether emotional well-being functions as a psychological mechanism through which financial literacy and financial inclusion enhance the ability of MSMEs to withstand financial shocks and adapt to economic uncertainty. Furthermore, this study aims to provide empirical evidence from Ambon City, an archipelagic region in Eastern Indonesia characterized by high logistical costs, limited financial access, and business vulnerability, thereby extending the applicability of Financial Capability Theory within a unique regional context. By integrating financial and psychological dimensions, this study seeks to address inconsistencies in previous findings and contribute to a more comprehensive understanding of the determinants of MSME financial resilience.

Based on these conditions, this study becomes relevant because it seeks to explain how financial literacy and financial inclusion influence SME financial resilience through emotional well-being as a mediating variable. This focus is important considering that the economic pressures faced by SME owners in Ambon City are not only related to capital and market issues but also to psychological readiness in dealing with business uncertainty (Jha et al., 2015; Khan et al., 2022; Meyer & Meyer, 2017). This study is expected to enrich the literature on SME financial resilience through a more integrative approach while also providing an empirical foundation for the development of more contextual SME empowerment policies, particularly in the Eastern Indonesia region.

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Drawing on Financial Capability Theory, this study proposes and tests an integrated model that examines the influence of financial literacy and financial inclusion on MSME financial resilience, while identifying emotional well-being as the psychological process through which financial capability strengthens resilience. Specifically, this study seeks to determine whether emotional well-being functions as a psychological mechanism through which financial literacy and financial inclusion enhance the ability of MSMEs to withstand financial shocks and adapt to economic uncertainty. Beyond its theoretical contribution, this research draws on empirical evidence from Ambon City, an archipelagic area in Eastern Indonesia where high logistics costs, constrained access to formal financial services, and persistent business vulnerability create a distinctive environment for MSMEs. Examining this setting broadens the contextual relevance of Financial Capability Theory beyond the regions that have traditionally dominated the literature. By combining financial capability with psychological well-being, the proposed framework offers a more holistic explanation of MSME financial resilience while helping reconcile the inconsistent findings reported in earlier studies.

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and market issues but also to psychological readiness in dealing with business uncertainty (Jha et al., 2015; Khan et al., 2022; Meyer & Meyer, 2017). The proposed framework not only deepens current understanding of SME financial resilience from a more integrated perspective but also provides practical evidence to support the design of locally responsive empowerment policies, especially for SMEs operating in Eastern Indonesia.

2. RESEARCH METHODS

2.1 Type of Research and Population and Sample

This research relied on a quantitative explanatory survey to investigate the interplay between financial literacy, financial inclusion, and the financial resilience of SMEs in Ambon City, with emotional well-being incorporated as the mediating pathway. Such an approach was chosen to enable an objective assessment of the interrelationships among variables using statistical procedures. The empirical setting involved SMEs recorded by the Department of Cooperatives and SMEs of Ambon City. Respondents were drawn using a purposive sampling approach, whereby only business owners meeting the predefined eligibility requirements were included in the analysis. Specifically, the respondents were SME owners who live in and manage their businesses within Ambon City had managed their businesses for at least one year, and served as the owner or primary manager of the business, thereby possessing adequate knowledge of the operational and financial conditions of the enterprise. In addition, eligible respondents were expected to have prior experience in utilizing formal or digital financial services, including bank accounts, Quick Response Code Indonesian Standard (QRIS), mobile banking platforms, business credit facilities, or other fintech-based services, and to demonstrate willingness to complete the questionnaire in a thorough and informed manner. Based on the selection process using these criteria, the study obtained a total sample of approximately 71 SME respondents. This sample size was considered sufficient for Structural Equation Modeling–Partial Least Square (SEM-PLS) analysis, as this method remains applicable for relatively small sample sizes provided that the minimum analytical requirements are fulfilled (Hair & Alamer, 2022). Furthermore, the use of a more focused sample was expected to generate data that were more specific and relevant to the context of SMEs in Ambon City.

2.4 Conceptual Framework

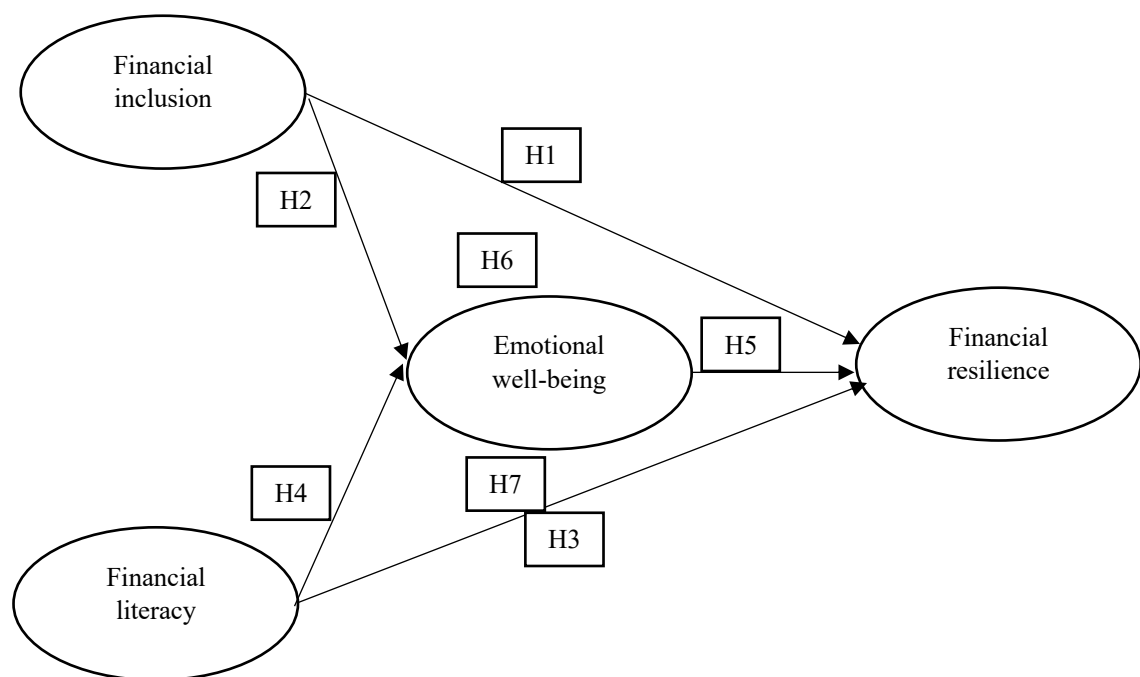


Figure 1. Research Conceptual Framework

The research model presented in Figure 1, summarizes the hypothesized pathways through which financial literacy and financial inclusion are expected to influence SME financial resilience, with emotional well-being incorporated as the intervening mechanism. Drawing upon Financial Capability Theory, the framework posits that financial literacy and financial inclusion serve as key dimensions of financial capability that directly strengthen financial resilience while also exerting indirect effects through emotional well-being. As a psychological mechanism, emotional well-being explains how financial capability is translated into greater resilience by enhancing business owners' confidence, emotional stability, and capacity to cope with financial uncertainty. Accordingly, the framework provides an integrated perspective that links financial and psychological dimensions in explaining the financial resilience of SMEs operating in the archipelagic context of Eastern Indonesia.



2.3 Research Hypotheses

Drawing on the proposed conceptual model, the hypotheses were formulated to test the pathways linking financial literacy, financial inclusion, emotional well-being, and the financial resilience of SMEs in Ambon City. The analysis was designed to capture both the direct pathways and the indirect mechanisms operating among the variables within the proposed framework. Accordingly, the hypotheses formulated for this research are presented as follows:

- H1 : Financial inclusion influences financial resilience
- H2 : Financial inclusion affects emotional well-being.
- H3 : Financial literacy influences financial resilience
- H4 : Financial literacy affects emotional well-being.
- H5 : Emotional well-being has an impact on financial resilience.
- H6 : Emotional well-being serves as a mediator in the relationship between financial literacy and financial resilience.
- H7 : Emotional well-being functions as a mediating variable in the linkage between financial inclusion and financial resilience.

2.4 Operational Definition of Variables

The constructs included in this study were operationalized using definitions and measurement indicators derived from previous empirical research to ensure content validity and theoretical consistency. Each latent variable was operationalized through multiple measurement items reflecting its theoretical dimensions in the context of MSMEs. Participants rated their responses on a five-point Likert scale anchored from 1 (“strongly disagree”) to 5 (“strongly agree”). Table 1 summarizes the operational definitions together with the indicators used to measure each variable.

Table 1. Operationalization and Measurement of Research Variables

Variable	Operational Definition	Indicators	Scale
Financial Literacy (X1)	The ability of MSME owners to understand, manage, and apply financial knowledge in making sound business decisions, including budgeting, financial record-keeping, risk management, and business planning (Whajah & Adenutsi, 2024).	1. Understanding of business financial management. 2. Ability to prepare budgets. 3. Ability to maintain financial records. 4. Ability to manage financial risks. 5. Ability to make rational financial decisions.	Likert 1–5
Financial Inclusion (X2)	The extent to which MSME owners can access and utilize formal financial services to support business activities, including savings accounts, credit facilities, digital payment systems, mobile banking, and fintech services (Dou et al., 2025).	1. Ownership of a bank account. 2. Access to business credit. 3. Use of digital payment services (QRIS). 4. Use of mobile banking services. 5. Utilization of fintech services. 6. Ease of accessing formal financial services.	Likert 1–5
Emotional Well-Being (Z)	A positive psychological state characterized by feelings of security, calmness, self-confidence, and the ability to cope with pressure while managing a business. This variable reflects the capacity of MSME owners to maintain emotional stability when facing business uncertainty (Ravikumar et al., 2022).	1. Feeling calm while managing the business. 2. Level of self-confidence in making business decisions. 3. Ability to manage financial stress. 4. Sense of security regarding business conditions. 5. Optimism about the future of the business.	Likert 1–5
Financial Resilience (Y)	The ability of MSMEs to maintain financial stability, adapt to economic pressures, manage cash flow effectively, and recover from financial shocks and business uncertainties in a sustainable manner (Mohanty, 2025).	1. Ability to maintain business cash flow. 2. Ability to cope with declining income. 3. Ability to manage business risks. 4. Ability to adapt to economic changes. 5. Ability to sustain business operations during financial shocks.	Likert 1–5

2.5 Data Analysis and Testing Techniques

The relationships specified in the conceptual model were assessed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) implemented in SmartPLS. This technique was chosen for its ability to estimate multiple interrelated relationships simultaneously, including the assessment of mediation effects within the proposed framework. The analytical procedure commenced with descriptive statistics to outline respondent characteristics and provide an overview of each research construct. The next stage involved assessing the measurement model to confirm the adequacy of the latent variables, followed by an evaluation of the structural model to estimate the hypothesized paths. Hypothesis testing





relied on bootstrapping resampling, providing robust estimates for both direct associations and indirect pathways within the analytical framework.

Before proceeding to the main analysis, the research instruments underwent validity and reliability assessments to confirm that the collected data met the requirements for further examination. The measurement model was first evaluated by analyzing indicator loadings and the Average Variance Extracted (AVE) to ensure that each item provided an adequate representation of its respective construct. The consistency of the measurement instrument was subsequently confirmed through Cronbach's Alpha and Composite Reliability, both of which served as indicators of internal reliability (Ali et al., 2022; Malapane & Ndlovu, 2024). The instruments were deemed acceptable when these coefficients surpassed the 0.70 threshold, indicating their adequacy for use in the subsequent analysis stage.

3. RESULTS AND DISCUSSION

3.1 Research Results

3.1.1 Construct Reliability and Validity Test Results

Table 2 indicates that the measurement model achieved satisfactory levels of construct reliability and convergent validity based on the SEM-PLS evaluation criteria. In addition, almost all indicator loadings exceeded the accepted threshold of 0.70, confirming that the indicators were appropriate measures of their respective latent variables. However, several indicators, such as EWB1 (0.636), EWB5 (0.662), FI3 (0.678), FI4 (0.691), and FL1 (0.641), had loading values slightly below the ideal criterion. Nevertheless, these indicators were retained because their values remained above the acceptable minimum threshold of 0.60 and were supported by the overall construct validity and reliability values that still met the required standards (Ali et al., 2022; Kawate et al., 2025; Sari & Jais, 2025). Regarding internal consistency, all constructs recorded Cronbach's Alpha coefficients above the 0.70 benchmark, with Emotional Well-Being at 0.786, Financial Inclusion at 0.846, Financial Literacy at 0.847, and Financial Resilience at 0.856. Complementing these results, Composite Reliability scores ranged between 0.854 and 0.897, indicating a high level of stability and consistency across all measurement constructs.

Furthermore, the convergent validity test also produced satisfactory results, as all constructs recorded Average Variance Extracted (AVE) values above the minimum requirement of 0.50. The AVE for Emotional Well-Being stood at 0.542, Financial Inclusion at 0.539, Financial Literacy at 0.624, and Financial Resilience at 0.635. Overall, the AVE estimates exceeded the recommended benchmark, indicating that the measurement items shared sufficient variance with their underlying latent constructs and providing strong support for convergent validity. Notably, Financial Literacy and Financial Resilience exhibited comparatively stronger measurement quality, as reflected in their higher AVE scores and more stable indicator loadings. Taken together, the evaluation of the measurement model demonstrates that the instruments meet acceptable psychometric standards, making them suitable for subsequent structural analysis.

Table 2. Results of Reliability and Construct Validity Tests

	Outer Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
EWB1	0.636	0.786	0.854	0.542
EWB2	0.755			
EWB3	0.768			
EWB4	0.840			
EWB5	0.662			
FI1	0.772	0.846	0.875	0.539
FI2	0.759			
FI3	0.678			
FI4	0.691			
FI5	0.751			
FI6	0.751	0.847	0.891	0.624
FL1	0.641			
FL2	0.822			
FL3	0.846			
FL4	0.881			
FL5	0.737	0.856	0.897	0.635
FR1	0.744			
FR2	0.790			
FR3	0.771			
FR4	0.826			
FR5	0.848			



3.1.2 Heterotrait-Monotrait Ratio (HTMT) Test Results

The results of the Heterotrait–Monotrait Ratio (HTMT) analysis presented in Table 3 were used to assess discriminant validity across the study constructs. Overall, all HTMT coefficients fell below the recommended cut-off value of 0.90, indicating that each construct in the model maintains satisfactory discriminant validity (Roemer et al., 2021). The HTMT coefficient between Emotional Well-Being and Financial Inclusion was recorded at 0.594, reflecting a clear conceptual separation between the two variables. Likewise, the HTMT value for Emotional Well-Being and Financial Literacy reached 0.731, while the association between Financial Inclusion and Financial Literacy stood at 0.735, both remaining comfortably within acceptable limits.

Furthermore, the association between Financial Resilience and Emotional Well-Being produced the highest HTMT coefficient at 0.850, yet it still remained below the 0.90 cut-off, thereby indicating that discriminant validity was preserved. By contrast, the HTMT value between Financial Resilience and Financial Inclusion was considerably lower at 0.351, reflecting a clear separation between the two constructs. Likewise, the relationship between Financial Resilience and Financial Literacy yielded a coefficient of 0.675, which also confirms an acceptable level of distinctiveness. Taken as a whole, the HTMT findings demonstrate that all constructs in the model are empirically distinguishable, ensuring that each variable captures a different conceptual domain without overlap in measurement.

Table 3. Results of the Heterotrait-Monotrait Ratio Test (HTMT)

	Emotional Well-Being	Financial Inclusion	Financial Literacy	Financial Resilience
Emotional Well-Being				
Financial Inclusion	0.594			
Financial Literacy	0.731	0.735		
Financial Resilience	0.850	0.351	0.675	

3.1.3 R Square Test Results

Table 4 provides an overview of the R^2 and adjusted R^2 estimates, illustrating the extent to which the structural model explains variation in the endogenous variables. The Emotional Well-Being construct obtained an R Square value of 0.452 and an Adjusted R Square value of 0.436. An R^2 value of 0.452 indicates that nearly half of the variation in Emotional Well-Being was explained by the predictors specified in the proposed framework, whereas the unexplained proportion (54.8%) is likely attributable to additional influences beyond those considered in this research. Overall, the model exhibits moderate explanatory capacity, reflecting the meaningful role of the exogenous constructs in accounting for differences in Emotional Well-Being.

Meanwhile, the Financial Resilience variable yielded an R^2 value of 0.576 and an adjusted R^2 of 0.557. This implies that the predictors included in the model account for 57.6% of the variation in Financial Resilience, while the remaining 42.4% is attributable to external factors not captured in the framework. When compared with Emotional Well-Being, Financial Resilience exhibits a relatively higher explanatory strength. Taken together, these outcomes suggest that the structural model provides a satisfactory level of explanatory capacity and is reasonably effective in capturing the interrelationships among the study variables within this research context.

Table 4. Results of the R-squared Test

	R Square	R Square Adjusted
Emotional Well-Being	0.452	0.436
Financial Resilience	0.576	0.557

3.1.4 f Square Test Results

Table 5 reports the outcomes of the effect size (f^2) analysis, applied to determine the strength of influence exerted by each exogenous variable on the endogenous variables within the proposed model. Following Cohen's benchmark, f^2 values of 0.02, 0.15, and 0.35 are interpreted respectively as small, moderate, and substantial effects (Barot et al., 2024; Gonzales & Li, 2024). The results reveal that Financial Inclusion exerts a modest impact on Emotional Well-Being, reflected in an f^2 value of 0.116, and likewise shows a weak effect on Financial Resilience, with a coefficient of 0.059. These outcomes suggest that while Financial Inclusion plays a role in shaping both emotional conditions and resilience levels, its overall contribution within the structural configuration of this study remains relatively constrained.

Furthermore, Financial Literacy, in contrast, exhibited a more pronounced influence than Financial Inclusion. Its f^2 value of 0.200 suggests a moderate impact on Emotional Well-Being, whereas its effect on Financial Resilience, recorded at 0.136, falls between the small and moderate range. Conversely, Emotional Well-Being emerged as the most influential predictor of Financial Resilience, reflected in an f^2 value of 0.517, which is classified as a substantial effect. This pattern indicates that Emotional Well-Being serves as the primary driver of variation in Financial Resilience within the model. Collectively, these results imply that psychological and affective dimensions exert greater explanatory power than financial access-related factors in determining financial resilience in the context of this study.



Table 5. Results of the f Square Test

	Emotional Well-Being	Financial Inclusion	Financial Literacy	Financial Resilience
Emotional Well-Being				0.517
Financial Inclusion	0.116			0.059
Financial Literacy	0.200			0.136
Financial Resilience				

3.1.5 Hypothesis Testing Results

Results from the SEM-PLS bootstrapping procedure are summarized in Table 6 and complemented by the structural model shown in Figure 2. The figure visualizes the hypothesized pathways among the latent constructs, whereas the table presents the statistical evidence for each direct and indirect effect, including standardized path estimates, t-statistics, significance levels, and the final evaluation of the proposed hypotheses.

Among the five proposed direct relationships, empirical testing confirms support for four hypotheses. The strongest relationship emerges between Emotional Well-Being and Financial Resilience ($\beta = 0.633$, $t = 5.746$, $p < 0.001$), demonstrating that stable psychological conditions substantially enhance the capacity of MSMEs to cope with financial uncertainty and unexpected economic disruptions. Financial Literacy also exhibits a positive and statistically significant association with Financial Resilience ($\beta = 0.336$, $t = 2.657$, $p = 0.008$). This result suggests that business owners who possess stronger financial knowledge and more effective financial management skills are better equipped to sustain business performance under adverse conditions. In addition, Financial Literacy positively predicts Emotional Well-Being ($\beta = 0.423$, $t = 4.104$, $p < 0.001$), while Financial Inclusion likewise contributes significantly to improved Emotional Well-Being ($\beta = 0.322$, $t = 2.753$, $p = 0.006$). Collectively, these findings indicate that both dimensions of financial capability foster a more positive psychological state among SME owners. A different pattern is observed for the relationship between Financial Inclusion and Financial Resilience. Although the estimated path coefficient is negative ($\beta = -0.214$), the association does not reach statistical significance ($t = 1.825$, $p = 0.069$), resulting in the rejection of the proposed hypothesis. This evidence implies that access to formal financial services, by itself, is insufficient to strengthen the financial resilience of MSMEs. Rather, the benefits of financial inclusion appear to depend on complementary capabilities, particularly sound financial knowledge and other organizational or individual resources that enable business owners to convert financial access into greater resilience.

The indirect effect analysis provides evidence that Emotional Well-Being serves as a significant intermediary in linking both Financial Inclusion and Financial Literacy with Financial Resilience. The pathway from Financial Inclusion to Financial Resilience through Emotional Well-Being is statistically significant ($\beta = 0.204$, $t = 2.720$, $p = 0.007$), as is the indirect pathway connecting Financial Literacy to Financial Resilience ($\beta = 0.268$, $t = 3.236$, $p = 0.001$). These findings suggest that psychological well-being represents a key mechanism through which financial capability is converted into stronger financial resilience among MSMEs. Overall, the findings indicate that Financial Literacy directly strengthens Financial Resilience, whereas the influence of Financial Inclusion is realized primarily through Emotional Well-Being, highlighting the central role of psychological well-being in the proposed research model.

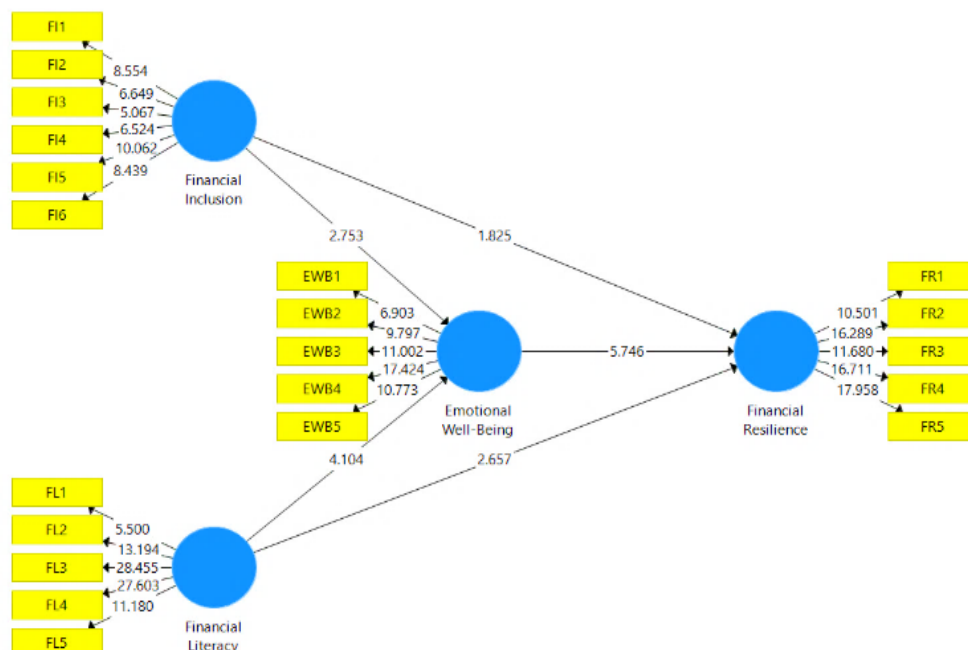


Figure 2. Bootstrapping Results



Table 6. Hypothesis Testing Results

	Original Sample	T-Statistics	P-Values	Keterangan
Direct Effects (Path Coefficients)				
Financial Inclusion -> Financial Resilience	-0,214	1,825	0,069	Rejected
Financial Inclusion -> Emotional Well-Being	0,322	2,753	0,006	Accepted
Financial Literacy -> Financial Resilience	0,336	2,657	0,008	Accepted
Financial Literacy -> Emotional Well-Being	0,423	4,104	0,000	Accepted
Emotional Well-Being -> Financial Resilience	0,633	5,746	0,000	Accepted
Specific Indirect Effects				
Financial Inclusion -> Emotional Well-Being -> Financial Resilience	0,204	2,720	0,007	Accepted
Financial Literacy -> Emotional Well-Being - > Financial Resilience	0,268	3,236	0,001	Accepted

3.2 Discussion

The findings indicate that financial inclusion does not have a significant direct effect on the financial resilience of SMEs in Ambon City, suggesting that access to formal financial services alone is insufficient to strengthen business resilience against economic shocks. Although savings accounts, business credit, QRIS, mobile banking, and fintech services expand financial opportunities, these resources do not automatically translate into stronger resilience unless they are supported by adequate financial capability. This finding is consistent with Financial Capability Theory, which emphasizes that financial capability is determined not only by financial access but also by the ability to utilize available financial resources effectively. Accordingly, financial access without sufficient financial knowledge and managerial competence is unlikely to improve business sustainability. These findings support the studies of Deepshikha et al., (2024); Hehanussa & Istia, (2023); Kuswoyo et al., (2024); Meyer & Meyer, (2017), which reported that financial inclusion primarily expands financial opportunities rather than directly improving business performance. Within the context of Ambon City, where SMEs operate under high logistics costs, limited market access, and economic uncertainty, financial access serves mainly as supporting infrastructure rather than the primary driver of financial resilience. Therefore, this study contributes to Financial Capability Theory by demonstrating that financial inclusion alone is insufficient to generate financial resilience and must be complemented by financial capability and psychological readiness. Although financial inclusion does not directly strengthen financial resilience, the subsequent findings reveal that it contributes significantly to improving the psychological condition of SME owners.

The results further reveal that financial inclusion positively and significantly influences emotional well-being, indicating that broader access to formal financial services enhances the psychological condition of SME owners. Access to banking services, digital payments, credit facilities, and fintech increases feelings of security, confidence, and financial control, thereby reducing uncertainty in managing business operations. From the perspective of Financial Capability Theory, financial inclusion strengthens financial capability by providing opportunities to utilize financial services that support both financial management and psychological security. These findings are consistent with Deepshikha et al., (2024); Kuswoyo et al., (2024); Meyer & Meyer, (2017), and studies reporting that digital financial services improve transaction efficiency and business opportunities (Hawach & Requejo, 2025; Khameswara et al., 2023; Lestari, Indyastuti, Alhamidi, et al., 2025). Unlike previous studies that mainly emphasized the economic consequences of financial inclusion, this study demonstrates that financial access also produces psychological benefits that strengthen entrepreneurs' emotional well-being. Consequently, the findings extend Financial Capability Theory by highlighting emotional well-being as an important outcome of financial inclusion and a prerequisite for developing stronger financial resilience. Besides financial access, however, the ability of entrepreneurs to understand and manage financial resources also emerged as an important determinant of business resilience.

Consistent with this argument, the findings suggest that financial literacy plays a pivotal role in strengthening the financial resilience of SMEs. Entrepreneurs equipped with stronger financial knowledge are generally better prepared to manage liquidity, anticipate financial risks, and sustain stable business performance in the face of economic shocks. These findings support Financial Capability Theory, which considers financial knowledge a core component of financial capability because it enables individuals to make informed financial decisions and utilize financial resources more effectively. The results are consistent with Abdallah et al., (2025); Deepshikha et al., (2024); Kurniasari et al., (2025); Lembong et al., (2025); Özyeşil et al., (2024); Pattipeilohy et al., (2024); Thirumalaisamy & Magd, (2024), who emphasized that financial resilience depends not merely on financial resources but also on the capability to manage financial uncertainty strategically. In the context of Ambon City, financial literacy functions as critical intangible capital that enables SMEs to respond more adaptively to structural constraints such as high logistics costs and limited market access. Therefore, this study reinforces the proposition that financial resilience is primarily driven by financial capability rather than financial resources alone, thereby strengthening the explanatory power of Financial Capability Theory in



geographically constrained regions. Beyond its direct contribution to financial resilience, financial literacy also appears to enhance the psychological readiness of entrepreneurs in managing business uncertainty.

The results also indicate that financial literacy positively and significantly affects emotional well-being, suggesting that greater financial knowledge reduces financial anxiety while enhancing confidence and emotional stability among SME owners. Entrepreneurs who understand budgeting, financial planning, and risk management are more capable of evaluating business conditions objectively, separating business and personal finances, and making rational financial decisions, thereby experiencing greater psychological security. These findings are consistent with Whajah & Adenutsi, (2024); Widjayanti et al., (2025), who argued that financial literacy contributes not only to cognitive capability but also to psychological well-being. From the perspective of Financial Capability Theory, this finding suggests that financial capability extends beyond technical competence by influencing individuals' emotional readiness in managing financial uncertainty. Accordingly, this study contributes theoretically by demonstrating that financial literacy functions simultaneously as an economic and psychological resource, providing a more comprehensive explanation of how financial capability supports sustainable business resilience. The importance of emotional well-being is further confirmed by its substantial contribution to strengthening financial resilience within the proposed research model.

Another important finding is that emotional well-being exerts the strongest positive effect on financial resilience, confirming that the ability of SMEs to survive financial shocks is influenced not only by economic resources but also by psychological conditions. Entrepreneurs with higher emotional well-being tend to remain calm under pressure, make more rational decisions, and adapt more effectively to changing business environments. This finding is consistent with Alshebami et al., (2025); Emiliano et al., (2025); Kapoor et al., (2024); Mehdi & Singh, (2025); Murugan et al., (2025), who concluded that emotional stability strengthens financial decision-making and organizational resilience. Consistent with Financial Capability Theory, the results indicate that financial capability is translated into resilient financial behaviour only when supported by positive psychological conditions. Therefore, this study broadens the conceptualization of financial resilience by integrating psychological capability alongside financial capability as complementary dimensions in building SME resilience. Given the central role of emotional well-being in the model, it is reasonable to expect that this construct also functions as an important mechanism linking financial capability to financial resilience.

This expectation is confirmed by the mediation analysis, which demonstrates that emotional well-being significantly mediates the effects of both financial literacy and financial inclusion on financial resilience, indicating that financial capability does not automatically translate into resilient financial behaviour. Instead, financial literacy and financial inclusion first strengthen entrepreneurs' confidence, emotional stability, and sense of financial security, which subsequently enhance their capacity to withstand economic pressures. These findings support Kataria & Anil, 2026; and Zaleskiewicz & Traczyk, (2020), who emphasized the importance of psychological mechanisms in financial behaviour and decision-making. More importantly, this study extends Financial Capability Theory by demonstrating that emotional well-being represents the psychological pathway through which financial capability is transformed into financial resilience. This contribution offers a more integrative theoretical framework by combining financial and psychological dimensions while providing empirical evidence from SMEs operating in the archipelagic region of Eastern Indonesia, where financial constraints, high logistics costs, and greater economic vulnerability distinguish the business environment from that of more urbanized regions.

Beyond confirming the empirical relationships among the proposed variables, this study offers a broader perspective on the development of Financial Capability Theory. While previous studies have generally conceptualized financial capability as a combination of financial knowledge and access to financial resources, the present findings demonstrate that financial capability becomes effective in strengthening financial resilience only when it is accompanied by positive psychological conditions. Specifically, emotional well-being emerges as the psychological mechanism through which financial literacy and financial inclusion are translated into resilient financial behaviour. This finding suggests that financial resilience should be understood not merely as an economic or behavioural outcome, but also as a psychological outcome reflecting entrepreneurs' capacity to cope with uncertainty, financial pressure, and business risk. By integrating financial and psychological dimensions within a single framework, this study extends Financial Capability Theory and enriches the growing literature on MSME resilience, particularly by providing empirical evidence from the archipelagic region of Eastern Indonesia, where structural constraints such as limited financial access, high logistics costs, and economic vulnerability differ substantially from those of more urbanized regions.

The findings also provide important implications for MSME development policies. Rather than relying primarily on initiatives that expand access to financial services, efforts to strengthen MSME resilience should adopt a more comprehensive approach that simultaneously develops financial capability and psychological readiness. Although financial inclusion remains an essential foundation for improving business opportunities, the findings indicate that access to financial services alone is insufficient to generate sustainable financial resilience without adequate financial literacy and emotional well-being. Accordingly, policymakers, financial institutions, and MSME development agencies should complement financial inclusion programs with integrated interventions that include financial education, digital financial capability development, business mentoring, stress management, and psychological support for entrepreneurs. Such initiatives are particularly relevant in Ambon City and other archipelagic regions of Eastern Indonesia, where business actors continue to face structural challenges arising from high logistics costs, market uncertainty, and limited economic opportunities.



Overall, this study demonstrates that sustainable financial resilience among MSMEs is shaped by the interaction between financial capability and psychological capability rather than by financial access alone. The findings explain why previous studies have reported inconsistent evidence regarding the relationship between financial inclusion and SME performance or financial resilience (Dou et al., 2025; Rahadjeng et al., 2023), showing that financial access functions primarily as an enabling resource whose effectiveness depends on entrepreneurs' ability to understand, manage, and confidently utilize available financial resources. Consequently, this study highlights financial literacy as a more consistent driver of financial resilience while positioning emotional well-being as the critical mechanism that transforms financial capability into resilient financial behaviour. These findings provide a more comprehensive explanation of MSME financial resilience and offer an integrated framework that combines financial literacy, financial inclusion, and emotional well-being as complementary dimensions for building sustainable resilience (Esomar et al., 2025; Huong & Anh, 2024; Lentner et al., 2025).

4. CONCLUSION

This study demonstrates that financial literacy significantly enhances both emotional well-being and financial resilience among SMEs in Ambon City, indicating that the ability to understand and manage financial resources plays a crucial role in strengthening resilience through better risk management, cash flow stability, and adaptive financial decision-making. Financial inclusion is found to improve emotional well-being by fostering a sense of security and psychological comfort; however, it does not directly strengthen financial resilience, suggesting that access to financial services alone is insufficient without adequate financial management capability. Emotional well-being exerts a positive and significant effect on financial resilience and serves as an important mediating mechanism linking financial literacy and financial inclusion to resilience. These findings confirm that SME financial resilience is shaped not only by financial knowledge and access to formal financial services but also by the emotional readiness of business owners in coping with uncertainty and economic pressures. Theoretically, this study extends Financial Capability Theory by integrating emotional well-being as a psychological factor and mediating variable within the relationship between financial literacy, financial inclusion, and financial resilience in the relatively underexplored context of SMEs operating in the Eastern Indonesian archipelago. Practically, the findings suggest that SME development programs should simultaneously strengthen financial literacy, expand financial access, and support entrepreneurs' emotional well-being to foster sustainable resilience. Nevertheless, the study is limited by its relatively small sample size, focus on Ambon City, and cross-sectional design; therefore, future research should employ larger and more diverse samples, adopt longitudinal approaches, and incorporate additional variables such as financial behavior, digital capability, social capital, and entrepreneurial orientation. This study shows that financial inclusion does not directly improve the financial resilience of MSMEs in Ambon City. Instead, access to banking services, digital finance, and formal credit primarily enhances entrepreneurs' emotional well-being by increasing their sense of security in managing business finances. In contrast, financial literacy positively influences both emotional well-being and financial resilience, indicating that entrepreneurs with stronger financial capabilities are better able to manage resources, cope with uncertainty, and sustain their businesses. The findings also identify emotional well-being as the strongest predictor of financial resilience. MSME owners with greater emotional stability are better prepared to respond to financial challenges and adapt to changing economic conditions. Furthermore, emotional well-being significantly mediates the effects of financial literacy and financial inclusion on financial resilience, suggesting that financial capability strengthens resilience through psychological readiness rather than through direct financial access alone. Theoretically, this study extends Financial Capability Theory by integrating emotional well-being into the explanation of MSME financial resilience, offering a more comprehensive framework that combines financial capability with psychological capacity. Moreover, this study enriches the empirical validity of the theory by providing evidence from MSMEs operating in the archipelagic region of Eastern Indonesia, where limited financial access, high logistics costs, and greater economic vulnerability create distinctive business challenges. From a practical perspective, the findings suggest that policies aimed at strengthening MSME resilience should move beyond expanding financial access alone and instead integrate financial literacy development, effective utilization of financial services, and initiatives that foster entrepreneurs' emotional well-being to build sustainable financial resilience.

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