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Financial Risk Management of MSMEs in Facing Global Economic Volatility

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Abstract: This study aims to examine financial risk management in Micro, Small, and Medium Enterprises (MSMEs) in the face of increasingly complex global economic volatility. Global economic dynamics characterized by exchange rate fluctuations, inflation, changes in raw material prices, and uncertainty in market demand put significant pressure on the stability of MSME businesses. On the other hand, limitations in financial management, low financial literacy, and limited access to formal financing and digital technology are key challenges that increase the vulnerability of MSMEs to financial risk. This study uses a qualitative approach with a descriptive approach through library research. The data used are secondary data obtained from various sources such as scientific journals, books, official reports, and other related publications. The data analysis technique uses content analysis with the stages of data reduction, data presentation, and conclusion drawing to produce a comprehensive understanding of the phenomenon studied. The results show that MSMEs face various types of financial risks, both internal and external, which require systematic management. Effective cash flow management is a key strategy in maintaining financial stability, while a healthy capital structure and inclusive access to financing also determine the level of business resilience. Furthermore, financial literacy and the use of digital technology play a crucial role in enhancing MSMEs' ability to identify and manage risks. Adaptive strategies such as business diversification and collaboration among MSMEs have also proven effective in navigating global economic uncertainty. Government policy support and the implementation of financial principles, including those based on Sharia, are key factors in creating a sustainable risk management system. In conclusion, strengthening financial risk management is a strategic step that must be taken to increase the resilience and sustainability of MSMEs amidst global economic volatility. Therefore, synergy is needed between business actors, the government, and relevant institutions to improve financial literacy, expand access to financing, and encourage the digital transformation of MSMEs so they can compete and develop sustainably.

Keyword: MSMEs, Financial Risk Management, Global Economic Volatility, Financial Literacy.

INTRODUCTION

Global economic developments in recent decades have shown increasingly complex and uncertain dynamics. Globalization, technological advances, and the integration of international financial markets have created both opportunities and challenges for economic actors in various countries, including Indonesia (Retna, 2025). One of the main impacts of this phenomenon is increasing global economic volatility, characterized by exchange rate fluctuations, changes in commodity prices, financial market instability, and periodic economic crises (Supardi & Setiawan, 2025). These conditions not only affect large companies but also significantly impact the Micro, Small, and Medium Enterprises (MSMEs) sector, which faces limitations in resources and adaptive capacity. MSMEs play a highly strategic role in the Indonesian economy (Malynovska et al., 2025). This sector not only absorbs the largest workforce but also contributes significantly to Gross Domestic Product (GDP). The existence of MSMEs also supports national economic resilience, especially during global economic crises (Agma, 2025). However, despite their significant role, MSMEs still face various structural challenges, particularly in financial management and risk management. Many MSMEs lack a sound financial management system, making them vulnerable to external economic shocks (Wahyudin, 2024).

Global economic volatility can impact MSMEs through various channels, such as rising raw material prices due to exchange rate fluctuations, declining purchasing power, changes in international trade policies, and supply chain disruptions. Under these conditions, MSMEs without adequate financial risk management strategies are more likely to experience losses and even potentially go bankrupt (Zahra, 2025). Therefore, the ability to identify, measure, and manage financial risks is crucial for the sustainability of MSME businesses (Iriani et al., 2024). Financial risk management is a systematic process that includes risk identification, risk analysis, risk evaluation, and taking mitigation measures to minimize potential negative impacts. In the context of MSMEs, financial risk management encompasses various aspects such as cash flow management, debt control, diversification of revenue sources, and protection against price and exchange rate fluctuations (Riyadi & Mubarik, 2025). However, in reality, many MSMEs still manage their finances simply and have not yet optimally implemented risk management principles (Nuryanti, 2025).

One factor contributing to the low level of risk management implementation in MSMEs is limited financial literacy. Many MSMEs do not yet understand the importance of systematic financial record-keeping, financial statement analysis, and risk mitigation strategies. Furthermore, access to information and technology remains a barrier, particularly for MSMEs in remote areas (Nento et al., 2025). This situation is exacerbated by the lack of mentoring and training focused on strengthening financial risk management capacity (Fahmi et al., 2025). On the other hand, developments in digital technology actually open up new opportunities for MSMEs to improve their ability to manage financial risks (Satria et al., 2025). Various financial applications, digital payment systems, and alternative financing platforms can help MSMEs improve transparency, efficiency, and accuracy in financial management. However, the use of this technology remains uneven and is often hampered by limited knowledge and human resource readiness (Juli et al., 2025).

In addition to internal factors, government policies also play a crucial role in supporting the strengthening of MSME financial risk management (Sylvana, 2025). Various programs, such as access to financing, interest subsidies, entrepreneurship training, and MSME digitalization, have been launched to increase the sector's competitiveness (Fauzan & Syara, 2025). However, the effectiveness of these programs still needs to be improved, particularly in terms of policy integration and program sustainability (Otokiti et al., 2014). A more comprehensive and sustainable approach is needed to ensure that MSMEs not only survive but also thrive in the face of global economic uncertainty. In the context of Islamic economics, MSME financial risk management can also be linked to the principles of fairness, transparency, and sustainability (Singkhala, 2025). This approach emphasizes the importance of risk management that is not solely profit-oriented but also considers ethical and socially responsible aspects (Kamesrar & Kastanya, 2025). This is particularly relevant in Indonesia, the country with the largest Muslim population in the world, where Sharia principles can form the foundation for developing a more inclusive and sustainable financial system (Suhada et al., 2025).

Given these challenges and opportunities, research on the financial risk management of MSMEs in the face of global economic volatility is crucial. This research is expected to contribute to identifying factors that influence MSMEs' ability to manage financial risk and formulating effective strategies to increase their resilience to economic shocks. Furthermore, the findings are expected to serve as a reference for the government, financial institutions, and other stakeholders in formulating more targeted policies and programs. Therefore, strengthening MSME financial risk management is not only a necessity but also a necessity in facing the uncertain era of globalization. MSMEs that are able to manage risk effectively will be more resilient, able to adapt to change, and have greater opportunities for sustainable growth. Therefore, an in-depth study of this topic is a strategic step in supporting inclusive and highly competitive national economic development.

METHOD

This study employed a qualitative approach using a systematic descriptive literature review to gain a comprehensive understanding of the concepts and practices of financial risk management in MSMEs facing global economic volatility. The systematic literature review approach was selected to ensure that the research process was conducted in a structured, transparent, and academically accountable manner. The study relied on secondary data obtained from various scientific sources, including national and international journals, textbooks, conference proceedings, official government reports, and publications from financial institutions and related organizations. The literature review focused on studies discussing MSME financial risks, cash flow management, financing access, financial literacy, digital technology adoption, and adaptive business strategies in uncertain economic conditions.

The literature search process was conducted systematically through several academic databases such as Google Scholar, Scopus, ScienceDirect, and other relevant digital repositories. The search strategy used combinations of keywords including “financial risk management,” “MSMEs,” “global economic volatility,” “cash flow management,” “financial literacy,” “digital technology,” and “business resilience.” Inclusion criteria consisted of: (1) articles published within the last ten years, (2) studies directly related to MSME financial management and economic uncertainty, (3) peer-reviewed scientific publications, and (4) literature available in full text. Meanwhile, exclusion criteria included duplicated studies, non-scientific publications, and articles that did not specifically discuss MSME financial risk management. Through this selection process, the researcher ensured that the reviewed literature was relevant, credible, and aligned with the research objectives.

The analytical process employed thematic content analysis to identify major patterns, concepts, and relationships within the selected literature. The analysis was conducted through several systematic stages, namely data reduction, coding, categorization, thematic interpretation, data presentation, and conclusion drawing. In the coding stage, the researcher classified findings from the literature into several major themes, including types of financial risks, cash flow management strategies, capital structure and financing, financial literacy and digital technology, as well as adaptive strategies and policy support. These themes were then analyzed critically to identify similarities, differences, and research gaps among previous studies. The use of thematic analysis enabled the study to produce a more structured conceptual synthesis regarding MSME financial risk management.

To strengthen methodological transparency and academic validity, this study also applied source triangulation by comparing findings from multiple literature sources and examining consistency among previous studies. Furthermore, the research process was documented systematically, including the search strategy, selection process, coding procedures, and interpretation stages, to improve the reliability and reproducibility of the study. Nevertheless, this research remains limited by its dependence on secondary data and the absence of direct empirical observation. Therefore, future studies are recommended to combine systematic literature reviews with empirical approaches such as surveys, interviews, or case studies in order to provide stronger evidence regarding effective financial risk management practices for MSMEs in facing global economic volatility.

RESULT AND DISCUSSION

Based on the results of the literature review, the discussion on financial risk management of MSMEs in facing global economic volatility can be formulated into five main interrelated points, namely: (1) identification and types of MSME financial risks, (2) cash flow management as the main risk mitigation strategy, (3) capital structure and access to financing, (4) the role of financial literacy and digital technology, and (5) adaptive strategies and policy support. These five aspects are an important foundation in understanding the level of resilience of MSMEs to global economic dynamics.

Identification and Types of Financial Risks for MSMEs

The research results show that MSMEs face various types of complex financial risks, both internal and external. Internal risks include weaknesses in financial record-keeping, lack of business planning, and poor financial analysis skills. Meanwhile, external risks include exchange rate fluctuations, changes in raw material prices, inflation, and uncertainty in market demand due to global economic conditions. In practice, many MSMEs are unable to systematically identify risks, often lacking adequate anticipatory measures (Jayanto et al., 2025).

A lack of understanding of these types of risks leads MSMEs to tend to ignore potential future losses. Yet, risk identification is a crucial first step in financial risk management. Without a clear risk map, MSMEs will struggle to prioritize management and develop appropriate mitigation strategies. Therefore, it is necessary to increase the capacity of MSMEs to understand and classify the financial risks they face.

Cash Flow Management as a Key Risk Mitigation Strategy

Cash flow management is the most crucial aspect in maintaining the financial stability of MSMEs. Studies show that most MSME financial problems stem from an imbalance between cash inflow and outflow. In unstable economic conditions, such as a global crisis or declining purchasing power, MSMEs often experience significant revenue declines. If not balanced with proper expenditure management, this can lead to a financial deficit (Dayuni, 2024).

The importance of cash flow management lies not only in the ability to record transactions, but also in short- and long-term financial planning. MSMEs with sound cash flow projections tend to be better prepared to face emergencies. Furthermore, the existence of reserve funds or emergency funds is also a crucial factor in increasing business resilience. Therefore, MSMEs need to be encouraged to implement a more structured financial recording system and maintain discipline in cash flow management (Amalia et al., 2025).

Capital Structure and Access to Financing

Capital structure is a critical factor influencing the level of financial risk for MSMEs. Research shows that many MSMEs still rely on internal financing sources or informal loans with high interest rates. This dependence increases financial risk, especially when businesses experience a decline in revenue. Furthermore, access to formal financial institutions remains limited due to perceived complex administrative requirements and a lack of collateral held by MSMEs (Setyawan, 2026).

In the face of global economic volatility, a healthy capital structure is crucial. MSMEs need to maintain a balance between equity and borrowed capital to avoid being burdened by excessive financial obligations. Furthermore, alternative financing options such as micro, small, and medium enterprises (MSMEs) credit (KUR), Sharia-based financing, and fintech lending can provide solutions to expand access to financing. However, utilizing these various financing sources must be accompanied by sound risk management skills to avoid creating new problems later on.

The Role of Financial Literacy and Digital Technology

Financial literacy is a key factor in improving MSMEs' ability to manage financial risk. Studies show that MSMEs with high levels of financial literacy tend to be better able to prepare financial reports, understand business conditions, and make rational decisions. Conversely, low financial literacy results in many MSMEs lacking clear financial planning and tending to mix business and personal finances.

In addition to financial literacy, the use of digital technology also makes a significant contribution to financial risk management. Digital financial applications enable MSMEs to record transactions in real time, monitor cash flow, and conduct more accurate financial analysis. Technology also opens access to broader markets and alternative financing sources. However, the adoption of this technology still faces various obstacles such as limited knowledge, infrastructure, and trust in digital systems. Therefore, ongoing education and mentoring efforts are needed to increase technology utilization among MSMEs (Amin, 2025).

Adaptive Strategies and Policy Support

Facing global economic volatility, MSMEs are required to develop adaptive strategies capable of adapting to changes in the business environment. One effective strategy is business diversification, both through product development and market expansion. Diversification can help reduce dependence on a single source of income, thereby minimizing the risk of loss. Furthermore, collaboration between MSMEs is also a crucial strategy for increasing business competitiveness and efficiency.

Policy support from the government and relevant institutions is also a crucial factor in strengthening MSME financial risk management. Training programs, mentoring, and more inclusive access to financing can help increase MSME capacity in facing global economic challenges. However, the effectiveness of these policies still needs to be improved through better coordination between institutions and a more targeted approach. In the context of Islamic economics, the application of principles such as fairness, transparency, and profit-sharing can also be an alternative in creating a more stable and sustainable financial system (Witantri et al., 2025).

Overall, these results and discussion demonstrate that strengthening MSME financial risk management requires a holistic and integrated approach. This requires not only the internal capabilities of business actors but also support from a conducive ecosystem, including government policies, access to technology, and increased financial literacy. Thus, MSMEs are expected to be able to face global economic volatility with greater resilience, adaptability, and sustainability (Aboualam, 2025).

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the results and discussion outlined above, it can be concluded that financial risk management is a crucial factor in determining the resilience and sustainability of MSMEs amidst global economic volatility. MSMEs face various financial risks, both internally generated, such as weak financial record-keeping and planning, and externally generated, such as exchange rate fluctuations, inflation, and changes in market demand. The inability to systematically identify and manage risks leaves most MSMEs vulnerable to economic shocks.

Effective cash flow management has proven to be a key strategy in maintaining the financial stability of MSMEs, followed by the importance of a healthy capital structure and inclusive access to financing. Furthermore, financial literacy and the use of digital technology play a significant role in improving MSMEs' ability to make sound financial decisions. Adaptive strategies such as business diversification and collaboration among MSMEs are also crucial in minimizing risk and increasing competitiveness amidst global economic uncertainty.

Therefore, strengthening MSME financial risk management requires a comprehensive and sustainable approach through synergy between business actors, the government, and relevant institutions. Improving financial literacy, expanding access to financing, and optimizing the use of digital technology must be top priorities. Through these efforts, MSMEs are expected to not only be able to withstand global economic volatility but also develop sustainably and contribute more significantly to the national economy.

Research Limitations

This study has several limitations that need to be considered. First, this study uses a literature review approach, so the analysis is limited to secondary data from previous studies and does not involve direct field observations of MSMEs. Second, the studies reviewed come from different economic backgrounds and business sectors, which may cause differences in findings and limit the generalization of results. Third, this study has not specifically analyzed differences in financial risk management practices based on MSME scale, region, or industry type. Fourth, the discussion regarding the use of digital technology and Islamic financial systems is still conceptual and has not been supported by empirical testing on the effectiveness of their implementation. Therefore, future research is expected to use empirical approaches through surveys or case studies to obtain more comprehensive and in-depth results regarding MSME financial risk management in facing global economic volatility.

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