



Financial Literacy and Inclusion Towards MSME's Performance in Ciwidey District

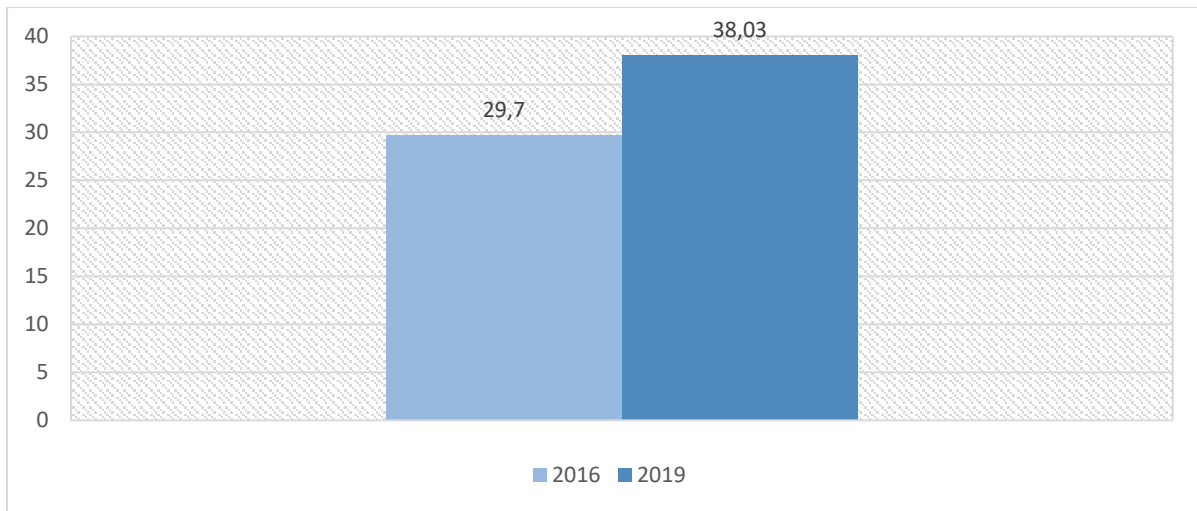
Abstract

MSMEs contribute significantly to job creation. This study aims to find out the influence of financial literacy and inclusion on MSME's financial performance in the Ciwidey District. This study used descriptive and verification methods, with a sample size of up to 60 respondents. The test result showed that all of the statements in the questionnaire were valid and reliable. The results of the verification analysis showed that simultaneously, financial literacy and inclusion had positive and significant impacts on MSME's financial performance by as much as 66.9%. In contrast, partially, financial literacy had a positive and significant impact of as much as 48.50% and financial inclusion as much as 18.40% on financial performance. The level of financial literacy, financial inclusion, and MSME financial performance of MSME's businessmen in Ciwidey District were in the category of deficient; since many indicators were below average scores and needed to be improved. Financial literacy had a more positive significant influence on MSME's financial performance than financial inclusion.

Keywords: *financial literacy; financial inclusion; MSME's financial performance*

1. INTRODUCTION

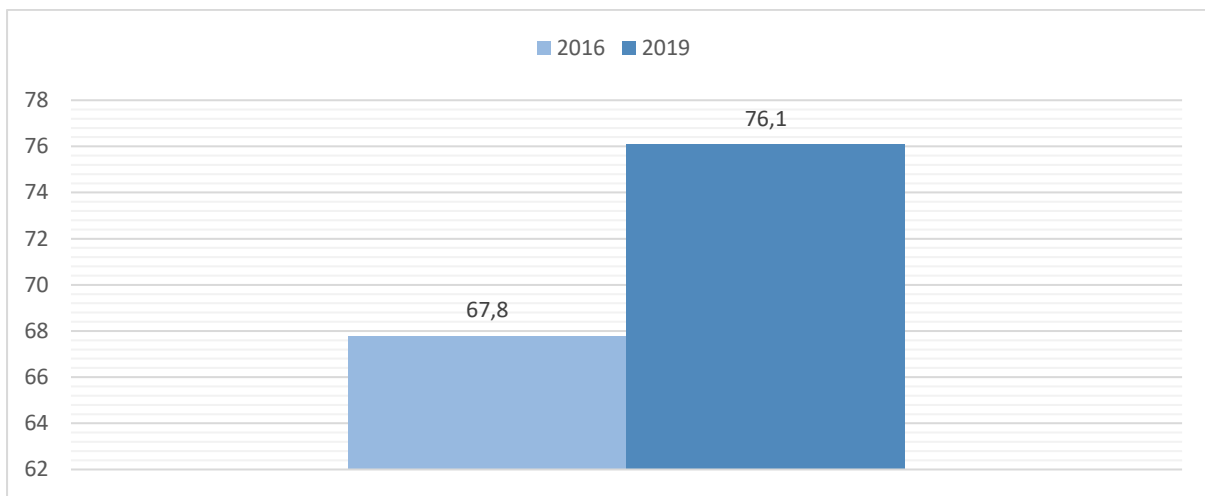
Micro, small, and medium enterprises (MSMEs) have always played important roles in Indonesia's economic development because the majority of the Indonesian population earns a living from small businesses/enterprises, both in the traditional and modern sectors. Establishing MSMEs helps creative people to support their economy, both for individuals and the public; since it can absorb and hire many people and help reduce unemployment, as well as contribute to the government's program in getting rid of poverty. Many MSMEs continue to face difficulties when operating their businesses, particularly in terms of financial management. Therefore, financial literacy and inclusion are expected to empower MSMEs to improve their financial performance. Figure 1 shows how the level of financial literacy in Indonesia, as stated by the Financial Services Authority (*Otoritas Jasa Keuangan, OJK*).



Source: (www.ojk.go.id, n.d.)

Figure 1. The Level of Financial Literacy in Indonesia

The level of financial literacy in Indonesia has shown its increase: as much as 29.7% in 2016 and 38.0% in 2019, although it has been still lower than the other neighboring countries such as Myanmar 52% and Singapore 59% (OECD, 2020). Figure 2 shows the level of inclusion in Indonesia.



Source: (www.ojk.go.id, n.d.)

Figure 2. The Level of Financial Inclusion in Indonesia

The level of financial inclusion in Indonesia also has shown an increase: as much as 67.8% in 2016 and 76.1% in 2019. However, at the actual condition, MSME's ability to access finance was only about 30% of the total 56,54 million MSMEs spread throughout Indonesia. Compared to other large-scale businesses, MSMEs tend to rely on their internal funds or on informal financing to start and run their businesses (www.bi.go.id, n.d.).

Issues related to the MSMEs' financial management are still one of the obstacles to its development because good financial management requires the proper ability to account (Mahardika, 2020). The ability to manage finance will help businessmen, while financial literacy can make them understand and acknowledge things and stuff about finance and its risks that most likely occur during the process, and avoid some financial issues (Septiani & Wuryani, 2020).

Regulation of Financial Services Authority (*Peraturan Otoritas Jasa Keuangan*, POJK) Number 76/POJK.07/2016 stated that financial literacy is knowledge, ability, and conviction which influence the attitude and behavior to improve the quality of decision-making and financial management to obtain people's well-being (Otoritas Jasa Keuangan, 2016).

In addition to having the financial literacy that MSME requires to maintain proper financial management, other factors are extremely helpful in managing the finances. Generally, MSMEs often face retardation in their development since they find it hard to access finance due to the incomplete requirements of the application for financing (Hilmawati & Kusumaningtias, 2021). Currently, MSMEs in Indonesia continue to face difficulties obtaining capital funds. The role and potential of MSMEs in the national economy do not exempt this sector from the classic problem of limited capital for business development. Capital provision for businesses is an absolute necessity used for business continuity (Ariyati et al., 2021).

According to Harrison (2016), the consumer's educational pedagogic boundaries do not strictly limit financial literacy. This can entail broader changes in consumers' decisions to ensure sufficient emphasis on crucial information to make healthy/proper financial decisions. Financial literacy is also a knowledge and understanding of financial concepts and risks, skills, motivation, and confidence for applying and making effective decisions in various financial contexts, improving individual and public financial well-being, and enabling participation in the economic field (OECD, 2013). Financial literacy requires the ability to discern financial possibilities, discuss money or cash and financial difficulties and plans, and respond competently to life events that influence daily financial decisions, including commonly found economic events (Sahadeo, 2018).

Regulation of Financial Services Authority (*Peraturan OJK*) Number 76/POJK.07/2016 stated that financial inclusion is the access availability for various institutions, products, and financial services based on the public's needs and power in improving their well-being. Various financial services within it can be chosen based on public needs and power to increase their well-being (Otoritas Jasa Keuangan, 2016). Financial inclusion is a dimension for

developing finance that contributes to the economy through financial activity (Barajas et al., 2020).

Consultative Group to Assist the Poor (CGAP 2016) stated that financial inclusion is accessed effectively by a business' household on the product user and financial services. Its products and financial services should be continuously available and properly regulated (Otoritas Jasa Keuangan, 2017). Financial inclusion is a process that ensures easy access, availability, and use of formal financial systems for the entire members of the economy. A well-developed financial system does not necessarily succeed yet in remaining outside the formal financial system (Gopalan & Kikuchi, 2016). Financial inclusion aims to bring the "unbanked" population into the formal financial system, allowing them to access financial services, including savings, payments, and transfers to credit and insurance. Soetiono & Setiawan (2018) argued that financial inclusion refers to any initiatives aimed at eliminating all obstacles to public access to cheap financial services. The research carried out by Kumari (2021) showed that aspects of inclusion include access, impact, quality, and use.

According to the research carried out by Solilova & Nerudova (2018), MSME's performance is based on the number of employees, turnover volume, or the amount of balance sheet. Therefore, the MSME can also be classified and defined as a micro, small, or medium-sized enterprise. A medium enterprise is a company that hires less than 250 people and owns its annual turnover, while an MSME's performance is a decision on how to target the consumer, distinguish offers, and determine the company's activity (including those that are outsourced), configure resource and its skill, locate its position at the market, and make a profit as well (Gay & Szostak, 2019).

Saeedi & Hamedi (2018) stated that financial literacy has an impact on performance, while Ye & Kulathunga (2019) argued that financial literacy is an important predictor of financial access, financial risk attitude, and MSME's sustainability. Kasenda & Wijayangka (2019) also discussed a similar statement. According to the research carried out by (Ajide, 2020; Lumenta & Worang, 2019; Otiato, 2016), financial inclusion has an impact on the MSME's performance. Other factors that influence it include the cost of the product/service, volume traded, margin, human resources, and efficiency. Financial inclusion allows MSMEs to develop their businesses by successfully utilizing financial services and providing a probable shift in income.

HYPOTHESIS

The hypothesis proposed in this study argues that there are influences of financial literacy and inclusion towards MSME's financial performance, both simultaneously and partially.

2. METHOD

Methods used in this study are descriptive and verification. The test on the research instrument uses validity and reliability tests; while techniques for analyzing data use analysis of multiple linear regression, multiple correlation, and coefficient of determination. The population taken as samples are MSME businesspeople in the Ciwidey District. As many as 148 entrepreneurs allowed mistakes by 10% by utilizing the Slovin method; consequently, samples obtained in this study were as many as 60 MSMEs with incidental sampling. The questionnaire used in this study is a Likert Scale, ranging from 1 to 5.

3. RESULTS AND DISCUSSION

Based on the findings of the validity and reliability test, questionnaires on financial literacy and inclusion, as well as MSME financial health, were entirely stated to be valid and reliable. The descriptive analysis for recapitulation result of financial literacy (Table 1) described the average score of 3.30; showing that financial literacy is in the category of deficient. It means that MSME businessmen in Ciwidey District need to increase more on their level of financial literacy properly. A few indicators that were below average scores and need to be improved are (1) knowledge about insurance, (2) knowledge about investment products, especially about shares/stocks, (3) knowledge about insurance risk, and (4) understanding of loans.

Table 1
Financial Literation Responses

No.	Indicator	Scores					N	Total	Average
		1	2	3	4	5			
1	Liquidity of assets	0	9	26	14	11	60	207	3,45
2	Personal financial planning	6	5	10	25	14	60	216	3,60
3	Owned savings	0	8	29	5	18	60	213	3,55
4	Loan understanding	0	23	9	22	6	60	191	3,18
5	Insurance knowledge	9	14	12	18	7	60	180	3,00
6	Insurance risk	4	14	15	22	5	60	190	3,17

knowledge									
7	Knowledge of stock investment products	10	7	13	21	9	60	182	3,03
8	Knowledge of the types of stock investment risks	2	8	19	23	8	60	207	3,45
Total							60	1.586	26.43
Financial Literation on Average								3,30	
Category								Deficient	

Source: Data processed, 2021

Businessmen's knowledge, ability, and financial conviction will undoubtedly influence their financial attitudes and behavior. The increase in knowledge will also contribute to their participation in activities related to finance and a more positive attitude in the long term. Proper/good financial literacy allows businessmen to choose suitable savings/investment products and avoid fraud risk. Financial literacy is also closely related to financial knowledge and basic concepts, including the key financial concepts, purposes, and financial fundamental features (Kristin, 2017). The educational program of financial literacy for MSMEs needs to be carried out as soon as possible regarding financial management so that banking systems can distribute their credit on target.

The recapitulation results on financial inclusion (Table 2) described the average score of 3.16; showing that financial inclusion is in the category of deficient. This means that MSME businessmen have not been optimal in applying for financial inclusion. A few indicators that were below average scores are (1) easiness of determining the banking system, (2) banking quality, (3) banking's well-being impact, (4) knowledge of the advantages of banking, and (5) ease of access in the banking system.

Table 2
Financial Inclusion Responses

No.	Indicator	Scores					N	Total	Average
		1	2	3	4	5			
9	Knowledge of banking	1	9	14	21	15	60	220	3,67
10	Knowledge of the benefits of banking	5	15	14	21	5	60	186	3,10
11	Ease of finding banking	7	13	22	12	6	60	177	2,95
12	Ease access to banking	3	13	21	20	3	60	187	3,12

13	Banking services level	6	13	8	26	7	60	195	3,25
14	Understanding of banking products	5	9	26	11	9	60	190	3,17
15	Quality of banking	10	11	15	17	7	60	180	3,00
16	Welfare impact on banking	3	14	23	18	2	60	182	3,03
Total							60	1.517	25,28
Financial Inclusion On Average							3,16		
Category							Deficient		

Source: Data Processed, 2021

Financial inclusion is one of the financial development dimensions; it contributes to the main issues for establishing the economy through financial basic functions (Barajas et al., 2020). Elements that play a part in financial inclusion are access, product availability, financial services, utilization, and quality (Otoritas Jasa Keuangan, 2017). The era of digitalization allows financial institutions to reach wider targets with lower costs. Services in digital finance have become an opportunity for MSMEs to improve financial performance (Rasheed et al., 2019). However, MSME businesspeople have not thoroughly comprehended the application of digital financial services, as they lack comprehension of the digital system and usage of technology, which needs to be improved.

The recapitulation result of MSME's financial performance (Table 3) described the average score of 3.24; showing that MSME's financial performance is in the category of deficient. This means that MSME businessmen have not been optimal in running their financial performance. A few indicators that were below average scores are (1) turnover achievement of the business target, (2) accuracy guarantee of obligation payment, and (3) stable financial capability.

Table 3
SME's Financial Performance Responses

No.	Indicator	Scores					N	Total	Average
		1	2	3	4	5			
17	Financial payment obligations within the billing period	6	3	6	35	10	60	208	3,47
18	Never late in paying financial obligations	8	8	9	30	5	60	196	3,27
19	Stable financial capability	10	7	16	21	6	60	186	3,10
20	Ability to pay bills or	9	7	7	32	5	60	197	3,28

installments									
21	Financial obligations are always on time	7	4	14	31	4	60	201	3,35
22	Guarantee the accuracy of payment	12	8	11	23	6	60	183	3,05
23	Achievement of turnover from business target	14	5	12	23	6	60	182	3,03
24	Achievement of revenue or profit	7	5	9	35	4	60	204	3,40
Total							60	1.557	25,95
Financial Performance on Average							3,24		
Category							Deficient		

Source: Data Processed, 2021

Table 4 showed a multiple correlation coefficient of 0.818, indicating that both financial literacy and financial inclusion have a very strong relationship power with MSME financial performance. The simultaneous coefficient of determination influences financial literacy and financial inclusion of MSME financial performance by up to 66.9%, while the partial coefficient of determination influences financial literacy by up to 48.60% and financial inclusion on MSME's financial performance by up to 18.40%.

Table 4
Simultaneous Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818 ^a	0.669	0.658	3.917

a. Predictors: (Constant), Financial Literation and Financial Inclusion

Source: Data processed, 2021

Financial performance was significantly influenced by both financial inclusion and financial literacy at the same time, as evidenced by the data in Table 5. The hypothesis test's results showed that financial inclusion and literacy significantly influenced MSME financial performance, up to 66.9%. In line with Septiani & Wuryani (2020), these results showed that proper financial inclusion should follow MSME financial literacy to further support efforts to improve MSME financial performance.

Table 5
Simultaneous Hypothesis Test

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1769.112	2	884.556	57.653	.000 ^b
1 Residual	874.538	57	15.343		
Total	2643.650	59			

a. Dependent Variable: SME's Financial Performance

b. Predictors: (Constant), Financial Literation, Financial Inclusion

Source: Data Processed, 2021

Improving financial literacy and inclusion by MSME businessmen in Ciwidey District can increase financial performance because they can understand more about the basic concept of financial products, carry out better financial planning and management, as well as protect themselves from unhealthy business in the financial market, and from being counterfeited (Otoritas Jasa Keuangan, 2016). The businessmen's ability to recognize and carry out access to financial sources enables them to increase their financial performance. The available funds should be used effectively and efficiently; while the businessmen themselves must be able to choose cheaper sources of funds based on their needs.

Partially, financial literacy significantly influenced MSME's financial performance, as much as 48.6% (Table 6). It has a more dominant influence compared to financial inclusion. MSME's businessmen should have a proper/good level of financial literacy to empower their business, especially in maintaining, controlling, and making financial decisions. They can obtain materials about MSME's financial literacy from various seminars, training, or even more, seeking other information to enhance their understanding of finance. This study's result is in line with those carried out by Anggraeni (2015), Hilmawati & Kusumaningtias (2021), Kasenda & Wijayangka (2019), and Kebede et al. (2015).

Table 6
Results of Partial Coefficient of Determination

Variable	Beta Coefficient x Zero order	Results	Percentage
Financial literacy (X_1)	0,619 x 0,785	0,486	48,60%
Financial Inclusion (X_2)	0,285 x 0,645	0,184	18.40%
Total		0,669	66,9%

Sumber: Hasil olah data SPSS 25, 2021

Businesspeople are capable of carrying out the function of financial management as efficiently as possible when they possess proper or high-quality financial literacy. This includes planning, utilizing the newest information and technology, and keeping records for decision-making. Financial literacy could be a priceless value for a business in obtaining competitive excellence. Businessmen with a high level of financial literacy have the potential to improve productivity and gain competitiveness in performance.

Financial inclusion significantly influenced MSME's financial performance, as much as 18,4%. The influence was less than that of financial literacy because many MSME business owners were still unable to implement financial inclusion in their business activities. Since financial inclusion will improve MSMEs' financial position, more growth in this area is anticipated. This result is in line with Ajide (2020), Chauvet et al. (2017), and Otiato (2016).

Utilization of technology, such as mobile/internet banking, depositing and withdrawing cash through ATMs, is part of financial inclusion that can improve MSME's performance. This study raises awareness for financial institutions about the importance of utilization, access, and quality of finance for MSMEs that will improve business performance.

4. CONCLUSION AND IMPLICATIONS

This study concludes that the level of financial literacy, financial inclusion, and MSME financial performance of MSME's businessmen in Ciwidey District were in the category of deficient; since many indicators were below average scores and needed to be improved. Simultaneously, financial literacy and financial inclusion had a significant influence on MSME's financial performance, as much as 66.9%; while partially, financial literacy had a positive significant influence on MSME's financial performance, as much as 48.6%, and financial inclusion had a positive significant influence on MSME's financial performance, as much as 18.4%.

Better financial literacy and inclusion will help MSME entrepreneurs in the Ciwidey District to better manage the finances that have an impact on business sustainability. Partially, the influence of financial literacy is greater on the performance of MSMEs, so it is important for MSME entrepreneurs to further improve financial literacy by attending various seminars on finance, reading various references that can be used as a reference to improve knowledge and skills about financial institutions and products. The study's limitations were that it only looked at MSME in the Ciwidey District; therefore, it would be great if further study was conducted on a bigger scale to determine if the findings followed the same pattern.

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