

# Increasing Financial Literacy And Financial Inclusion Model To Achieve MSMEs Financial Well Being

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**Abstract:** This study aims to find a model for Increasing Financial Literacy and Financial Inclusion to Achieve MSMEs Financial Well Being. Increasing literacy and financial inclusion are believed to be able to develop MSMEs because MSMEs can better understand the basic concepts of financial products, make better financial planning and management, and protect from fraud and unhealthy businesses in the financial markets. This study is a descriptive research conducted in Blitar City. Capital is a major problem for MSMEs to be able to develop. Increasing literacy and financial inclusion by utilizing the WhatsApp application on smartphones by forming MSMEs groups according to the type of business there are banks or other financial institutions, Cooperative Office and MSMEs along with ASUMI and students from universities that are real work practices, the difficulty of MSMEs to access credit can be eliminated so that capital is no longer a problem and MSMEs Financial Well Being will be achieved.

**Index Terms:** Financial Inclusion, Financial Literacy, Financial Literacy and Inclusion Improvement Models, MSMEs Financial Well Being.

## 1. INTRODUCTION

IICRO Small and Medium Enterprises (MSMEs) are an important sector and have a large contribution in realizing national economic development goals, such as economic growth, employment opportunities and regional economic development. MSMEs problems can be seen from two sides, internal and external, Susilo (2010) [1]. From the internal side the inhibiting factors are limited capital, weak business networks, and the ability to penetrate the market. While from the external side the inhibiting factors are the business climate that is not yet conducive, the limited facilities and infrastructure, the implications of regional autonomy, the nature of products with short life time, and limited market access. MSMEs capital is a problem that always exists even though the government has issued various policies to help overcome these problems. The results of research from Nisa (2016) [2] revealed that government policies that require lending to MSMEs for Commercial Banks in Indonesia did not have a positive impact on increasing credit growth to MSMEs. Bank is struggling to meet the target of lending to MSMEs by 15% of total loans in 2017 [3], this is because the MSMEs have not met the bank's requirements to obtain credit. Increasing financial literacy and financial inclusion are believed to be able to develop MSMEs because MSMEs practitioners can better understand the basic concepts of financial products, make better financial planning and management, and protect from fraud and unhealthy businesses in financial markets, it is also expected that MSMEs have the ability to survive in state of financial crisis (Financial Well Being). Increasing financial literacy and inclusion for MSMEs development also requires optimizing the use of financial technology to facilitate access and expand outreach. The purpose of this study is to find a model for increasing financial literacy and financial inclusion to achieve MSMEs financial well being.

## 2 LITERATURE RIVIEW

### 2.1 Financial Literacy

Various studies on financial literacy have been carried out in several countries. Wachira and Kihui (2012) [7] have conducted studies on the effect of financial literacy on access to financial services in Kenya 2009, apparently access to

financial services is not only influenced by the level of financial literacy but is more influenced by the level of income, distance from banks, age, marital status, gender, household size, and education level. Van der Werff et al. (2013) [8], in their study in 31 OECD countries in 2011, showed that affecting factors the proportion of the population accessing banking were income inequality, the number of ATMs and banks per 100,000 population, the level of public trust in institutions proxied by the corruption index and GNI per capita. Financial inclusion is also influenced by technological developments. Andrianaivo and Kpodar (2012) [9] analyzed 44 countries in the African continent using 1988-2007 data related to cell phone relations, financial inclusion and economic growth. The results of the study explain that the development of cell phones contributes to economic growth in Africa. In addition, financial inclusion as measured by the amount of savings and loans per capita becomes one of the transmission lines from the development of cellular telephones to growth.

### 2.2 Financial Inclusion

The Consultative Group to Assist the Poor (CGAP) defines financial inclusion as a condition where all working-age people are able to get effective access to credit, savings, payment systems and insurance from all financial service providers. Sarma (2011) [4] defines financial inclusion as a process that guarantees ease of access, availability, and benefits of the formal financial system for all economic actors. Central Bank of Indonesia (2013) [5] defines financial inclusion as all efforts aimed at eliminating all forms of price and non-price barriers to public access in utilizing financial services. Central Bank of Indonesia made a policy to increasing financial inclusion called inclusive financial policy. The policy took the form of financial service deepening targeting the lower middle class people. So financial services in Indonesia are not only for the upper middle class, but also the lower middle class. Based on the National Financial Literacy Survey of Indonesia (SNLKI) conducted by OJK in 2013, the MSMEs financial literacy rate reached 15.7 percent while the MSMEs financial inclusion rate was only 53.3 percent. This number is lower than the national average of 21.8 percent (financial literacy) and 59.7 percent (financial inclusion). MSMEs in Indonesia are growing rapidly, even the Financial Services Authority (OJK) assesses that there is potential in the MSMEs sector to develop further in

financial management. Access to financial services can be measured by the number of banking offices and the number of ATMs scattered in a region, the use of financial services is measured by the number of deposits and credit thrown / distributed. Sarma (2012) [6] summarizes it all in one concept namely Index of Financial Inclusion.

**2.3 Bankable and MSMEs Financial Well Being**

Banks usually see the bankability of a company or project to be funded with the 5Cs criteria, namely Capital, Collateral, Capacity, Character and Condition. Financial well-being definition according to OJK Regulation No. 76 / POJK.07 / 2016 [10] is a condition characterized by the ability of the community to survive when a financial crisis occurs. So far, MSMEs are known to be resilient and able to survive in a state of crisis, as happened in 2013 (weakening global financial conditions), many large companies in Indonesia have collapsed and eventually closed operations due to the monetary crisis. But not like these large companies, it turns out that the MSMEs is more resilient to the financial crisis. On the other research from Susilo (2010) [1] shows that the role of banks in financing MSMEs in Surakarta and Jojakarta small-scale needs to be improved.

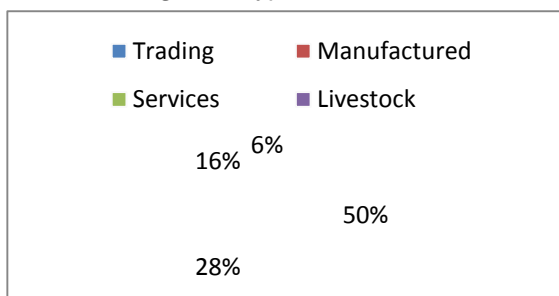
**3. RESEARCH METHOD**

This research is a descriptive and applied research. The unit of analysis is 1) Blitar City Micro Small and Medium Enterprises (MSMEs). 2) Banking companies in the city of Blitar. 3) Blitar City Cooperative and UMKM Office. In Blitar City there are approximately 21,291 MSMEs that are spread in 3 Subdistricts and 21 villages. The sampling technique is based on purposive sampling. Research instruments using questionnaires, interviews and FGD. Data analysis techniques use descriptive analysis to describe the findings and policies that involve interested parties to get an appropriate model of increasing financial literacy and inclusion, so that capital is no longer a major problem for MSMEs and Financial Well Being MSMEs can be achieved.

**4. MSMEs PROFIL**

In Blitar City there are approximately 21,291 MSMEs that are spread in 3 Subdistricts and 21 villages. Of this amount, 12,898 were micro businesses, while small and medium businesses did not reach 100 businesses. The large number of micro businesses is due to ability, the majority do not have enough capital. The types of MSMEs businesses that are respondents can be described as follows:

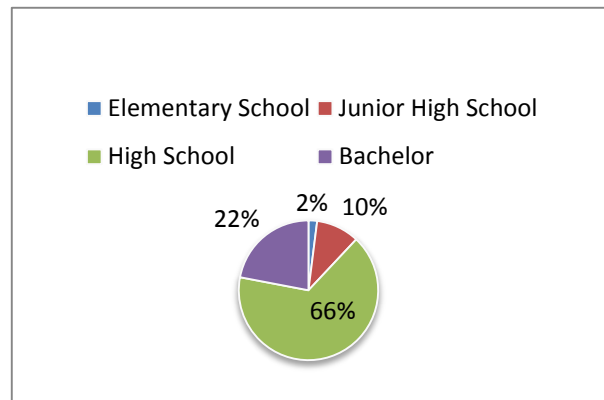
**Figure 1 Type of Business**



From MSMEs who are respondents 50% are engaged in trading which includes pre-owned shops, food stalls and online

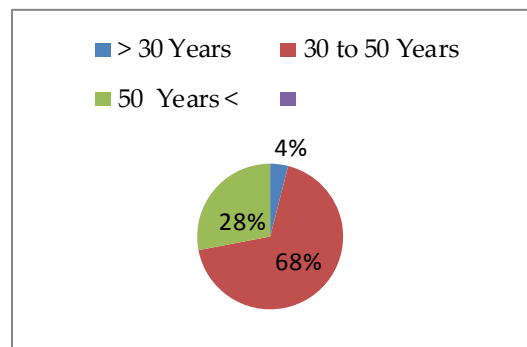
shops, 28% are engaged in the industries of batik and embroidery, convection, tofu making, and making pastries and cakes, 16% are engaged in services including laundry and salons, the remaining 6% are chicken farmers The level of education of the respondents varied, from elementary school to bachelor in various fields of business, meaning that there was no specificity of education for a field for MSMEs in Blitar City. In terms of the education of the respondents it appears in the following figure :

**Figure 2 Education**



Elementary school graduates by 2%, junior high school by 10%, high school by 66%, and bachelor by 22%. Online shop business owners are all bachelor graduates, the average trader is a high school graduate while the elementary school graduates are all engaged in the tofu industry, one of the villages namely Pakunden is a tofu industry center in the city of Blitar The age of MSMEs businessmen in Blitar City who were respondents was classified into 3, namely age under 30 years, 30 to 50 years and above 50 years. The productive age is between 15 to 64 years, while the reason for this classification is based on subjective considerations that under 30 years are considered immature in running a business, 30 to 50 years are mature and above 50 years need assistance from the next generation because of research this is related to technological development The age distribution of MSMEs businessmen is shown in the following figure:

**Figure 3 MSMEs Businessmen Age**



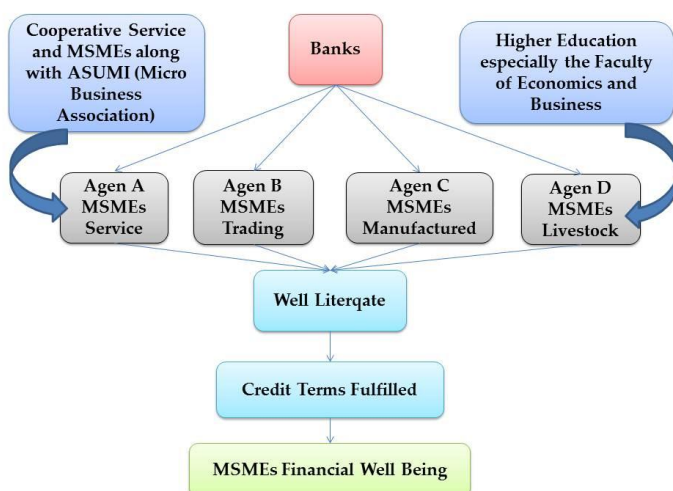
Related with the knowledge of MSMEs towards financial institutions, 88% know the types of banks in the city of Blitar and only 48% know the conditions for applying for credit. Although all respondents had experienced a lack of capital,

only 48% had received credit from banks, all of which were from BRI. MSMEs receiving credit are MSMEs who have received socialization from the Bank. By utilizing the currently developing smartphone technology (whatsapp) 60% of MSMEs have groups based on the same type of business. This group activity is related to sharing information about products, product prices, bazaars, marketing, all of which are carried out through the whatsapp group, while other activities besides the wa group are regular social gathering.

## 5. DISCUSSION

Micro, Small and Medium Enterprises have a significant contribution to the economy of countries around the world, so it is very important to give attention. Statistically, MSMEs contribute 57.9% of Indonesia's GDP and absorb 97% of national workers, so OJK views MSMEs as empowering and improving to boost the country's economy and improve people's welfare. The development of MSMEs can be done among others by increasing financial literacy and inclusion, this is because MSMEs can better understand the basic concepts of financial products, make better financial planning and management, and protect MSMEs from fraud and unfair business in the financial markets. As is known, the problems that exist in MSMEs are not only limited to the management of financial and resource management, but also access to capital owned by business actors. The low level of financial literacy of MSMEs is one of the causes of the lack of access to financial institutions. Financial Literacy and Inclusion Development, besides being top down in the form of leadership and Government and regulatory policies including OJK, is also bottom up by involving initiatives from the financial services industry and other social organizations. Based on the profile of MSMEs where 60% have a group as a means of sharing information related to businesses, the model for increasing MSME financial literacy and inclusion in Blitar City is as follows:

**Figure 4** MSMEs Financial Well Being Model



To increase the financial literacy and inclusion of MSME towards the MSMEs Financial Well Being, there are 4 related parties and their respective roles, namely Banks, the Cooperative Service and MSMEs along with ASUMI (Micro Business Association), Higher Education especially the

Faculty of Economics and Business, and MSME itself. The explanation of the model in Figure 4 as follows:

- Each MSME is joined in one WhatsApp group according to type of business, because the number of MSMEs in Blitar City is large, then the group can be more than one for each type of business. The formation of this group is intended to facilitate the dissemination of information (update information) from banks to MSMEs.
- Banks or Other Financial Institutions assign employees or agents to join the WhatsApp group for each type of business. This agent acts as an arm of the bank to share the latest information related to banking products, besides this agent can also provide a quick response if there are MSMEs having difficulty accessing products offered by banks. The latest information that is routinely submitted by the agent will make MSME entrepreneurs become well literate about banks.
- The Office of Cooperatives and MSMEs and ASUMI act as a companion of MSMEs, especially related to product design, marketing, quality improvement of HR and the latest government policies related to MSME development, because the MSMEs problems are actually not only capital problems.
- Higher Education, especially the Faculty of Economics and Business, as a companion for MSMEs related to company administration, such as Real Work Practices (PKN) for students in the Management Program at the Faculty of Economics and Business, University of Merdeka Malang. Students can be a companion for MSMEs to arrange administration especially in preparing company financial statements which is usually one of the bank's requirements so that MSMEs can obtain credit. This assistance can be carried out continuously because PKN is held periodically for 6th semester students.
- If the 4 related parties namely Banking, Cooperatives and MSMEs Service along with ASUMI (Micro Business Association), Higher Education especially the Faculty of Economics and Business, and MSMEs have carried out their functions properly, then a well literate MSME will be achieved, so that all requirements credit can be fulfilled and MSMEs can access credit offered by banks, capital is no longer a problem for MSMEs, the concept of financial well being MSMEs can be achieved.

## 6. CONCLUSION

Capital remains a major problem for MSMEs to be able to develop, increasing financial literacy and financial inclusion by utilizing the WhatsApp application on smartphones by forming MSME groups according to the type of business in which there are banks, Cooperative Office and MSMEs along with ASUMI and students from universities that are PKN, the difficulty of MSMEs to access credit can be eliminated so that capital is no longer a problem and MSME Financial Well Being will be achieved.

## ACKNOWLEDGMENT

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