THE EFFECT OF FINANCIAL INCLUSION AND FINANCIAL LITERACY ON MSME FINANCIAL PERFORMANCE

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Abstract

The purpose of this research is to examine how MSMEs' financial success is affected by the presence or absence of financial inclusion and financial literacy. Purposive sampling was used to choose 100 SMEs from the Bekasi Regency for this study. Multiple linear regression was used to evaluate the data gathered from the surveys. The study's findings demonstrate that MSMEs can benefit from both financial inclusion and financial literacy. For micro, small, and medium-sized enterprises (MSMEs), financial inclusion means having greater access to financing and other financial services in order to boost their financial performance. Meanwhile, financial literacy strengthens MSME's understanding of financial management, so that it can assist in managing finances and improving their financial performance. This research has implications for the government, regulators and financial institutions to increase financial inclusion and financial literacy among MSMEs. The government and regulators can help increase MSMEs' access to financial services through policies and regulations that support financial inclusion. Meanwhile, financial institutions can increase MSME financial literacy through targeted financial education and training.

Keywords: Financial Inclusion, Financial Literacy, Financial Performance, MSMEs

1. INTRODUCTION

MSMEs play a significant role in boosting the economic development of a nation, but they are impeded by a number of issues, including inadequate capital, production, product marketing, and human resources (Sedyastuti, 2018). From 1998 to 2021, the consumption of credit by small and medium-sized enterprises has not changed substantially; the rate of change cannot exceed 20%. The easier access to banking will make it easier for the general public and business actors to access banking products, such as MSME credit services, which will increase the quantity of distribution (Masruroh et al, 2021).

Law Number 20 of 2008 defines UMKM as a small company owned and managed by an individual or small group of individuals with a certain level of wealth and income. MSMEs play an essential role in economic development and promote economic growth in Indonesia. (Syairozi & Susanti, 2018) The existence of the MSME sector generates employment so that it can sustain unemployment.

The development of MSMEs also necessitates that MSMEs be able to compete with one another. So that MSME actors can establish new and distinct enterprises. In addition, it is anticipated that MSMEs will have strong performance (Fatimah & Azlina, 2021). Despite the fact that MSMEs have a potential function, their development still faces numerous obstacles. One of the issues that small and medium-sized enterprises (SMEs) confront today is a problem with business management. According to Aboar and Quartyey (2010), the development of micro, small, and medium-sized enterprises (MSMEs) is frequently hampered by unresolved conventional issues such as human resource capacity, ownership, financing, marketing, and other business management-related issues. Therefore, strategic initiatives are required to enhance the performance of MSMEs (Aribawa, 2016).

Performance is a measurement of an organization's achievement of its objectives. Performance is the result of work that has a strong relationship with the strategic objectives of the organization,
customer satisfaction, and economic growth. Nonetheless, the performance of MSMEs in Indonesia continues to lag behind that of neighboring nations (Sanistasya et al., 2019).

To boost their economic performance, micro, small, and medium-sized enterprises (MSMEs) should prioritize both financial inclusion and financial literacy. Small and medium-sized enterprises (SMEs) can benefit from increased financial performance if they have greater access to financing and other financial services made available through financial inclusion. Financial literacy, meanwhile, can aid micro, small, and medium-sized enterprises (MSMEs) in both these areas (Kusuma et al., 2022).

The impact of financial inclusion and financial literacy on the economic success of micro, small, and medium-sized enterprises (MSMEs) has been the subject of much study. However, the outcomes of these investigations are still mixed and limited. Therefore, the purpose of this research is to examine how MSMEs' financial success is affected by financial inclusion and financial literacy.

In light of the aforementioned problem statement, this study seeks to examine the impact of financial inclusion and financial literacy on the economic success of micro, small, and medium-sized enterprises (MSMEs) and to draw lessons for policymakers, regulators, and financial service providers. Academics can use this study as a resource for learning more about how financial inclusion and financial literacy affect the bottom line of micro, small, and medium-sized enterprises (MSMEs). This study can help micro, small, and medium-sized enterprises (MSMEs) appreciate the value of financial inclusion and financial literacy in boosting business success. This study has the potential to aid policymakers and regulators in improving financial inclusion and literacy among micro, small, and medium-sized enterprises (MSMEs).

2. LITERATURE REVIEWS

A. Financial Inclusion

According to Sanjaya (2014), financial inclusion aims to provide access for the public to own and use financial system services. Financial inclusion is a situation where the public has access to various financial services that aim to improve people's welfare. The level of use of financial services by the population in a country can be seen from the people's savings, borrowing money, making payments and managing risks.

According to Sanjaya (2014), financial inclusion aims to provide access for the public to own and use financial system services. Financial inclusion is a situation where the public has access to various financial services that aim to improve people's welfare. The level of use of financial services by the population in a country can be seen from the people's savings, borrowing money, making payments and managing risks. Financial services. Access is intended as an offer, while the use of financial services is determined by supply or demand.

Multidimensional financial services, including payment systems, accounts, savings, insurance, and access to capital markets are all part of what is meant by the term "financial inclusion," as described by Irmawati et al. (2013). A lack of financial service utilization does not necessarily indicate a lack of financial service availability. It's possible, instead, that people have access to these services but just opt not to utilize them. Increasing people's access to formal financial services is crucial to maintaining healthy economic expansion. When people are financially included, they are more likely to use formal financial services. Low levels of financial inclusion are associated with low use of formal financial services by the general people. The expansion of regulated financial markets is intended to boost economic growth through improving financial efficiency.

B. Financial Literacy

Hidajat (2016) defines financial literacy as the ability to handle finances in order to live a more successful life in the future. It is not only knowledge to handle funds, but it can also be integrated in each individual's conduct to develop financial literacy. Financial literacy, according to OJK (2013), is the capacity to grasp financial conditions and concepts and to apply that information responsibly.

Individuals who are financially literate have lower inflation expectations, according to researchers, because having financial literacy allows each individual to avoid the risk of inflation, which can occur at any time, and to understand the impact of inflation on returns (Atkinson and Messy, 2012),
especially when investing for the long term. Individuals with high financial literacy typically borrow at low interest rates and pay close attention to costs (Lusardi & Tufano, 2009).

Spending behavior that is under control. Individuals that are highly financially literate typically have debt literacy, understand the risks of debt and how to owe efficiently, and comprehend the notion of calculating interest and the time worth of money (Atkinson and Messi, 2012).

C. MSME performance

According to Aribawa (2016), an employee's success at an MSE is tied to the value or standard of the firm they work for because it is the product of their labor and can be fulfilled by their tasks within the organization and over a particular period. In this context, "performance" refers to the actual result that an individual or organization will obtain. Aribawa (2016) defines performance as "the extent to which an organization achieves its strategic goals and the expected behavior it has established for itself." When an MSME succeeds, it strengthens the country's economic foundation and assumes a larger role in the economy as a whole.

Companies that are considered "micro-enterprises" by law are those that employ fewer than 49 people and have annual revenues of less than $5 million. With a total asset value of no more than IDR 50 million, and an annual sales volume of no more than IDR 300 million as requirements. Without being a subsidiary or branch of a company controlled or becoming part, either directly or indirectly, of small or large businesses with the amount of annual sales proceeds as stipulated by law, medium enterprises are productive businesses that stand alone and are carried out by individuals or business entities. With asset criteria ranging from Rp. 500 million to Rp. 10 billion, and annual turnover criteria of > Rp. 2 billion to Rp. 50 billion.

D. Conceptual framework

Based on the theoretical basis and previous research, a conceptual framework in this study can be compiled as follows:

![Conceptual Framework](image)

From the conceptual framework, the formulation of the research hypothesis is as follows:

H1: There is an effect of financial inclusion on the financial performance of MSMEs in Bekasi

H2: There is an effect of financial literacy on the financial performance of MSMEs in Bekasi

3. METHODS

This research employs a quantitative method of investigation. According to Sugiyono (2016), the quantitative method is a research method based on the positivist philosophy, used to study specific populations or samples, collecting data using research instruments, and analyzing the data quantitatively or statistically in order to test the established hypotheses. In this survey, the population consisted of all Bekasi Regency SMEs, whether or not they were registered with the MSME Office, with a total sample size of 100 UMKM. The sample utilized a technique of purposive sampling. It is necessary to measure the effect of the independent variable on the dependent variable using a statistical analysis instrument, specifically SPSS 25.0 for Windows, in order to do so. The use of statistical analysis tools is anticipated to reveal or measure quantitatively the effect of independent variables, namely Financial Inclusion (X1)
and Financial Literacy (X2), on the dependent variable, namely the financial performance of MSMEs (Y), so that researchers can reach valid conclusions. The analysis employed is multiple regression.

4. RESULTS AND DISCUSSION

This research includes survey research using a questionnaire. This research analysis method is included in quantitative research, namely research that uses research hypothesis tests with statistical test tools. Primary data, collected in the field, is what was used for this research. Descriptive statistics are utilized as the method of analysis. While performing several regression tests to examine the hypothesis.

a) Descriptive Statistical Test Results

Minimum, maximum, average, and mean values, as well as the largest and smallest standard deviations, are all part of a data set's descriptive statistics. Researchers successfully handed out 100 questionnaires in the field, all of which were filled out in full.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Means</th>
<th>std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance (Y)</td>
<td>100</td>
<td>34</td>
<td>61</td>
<td>45.72</td>
<td>4.931</td>
</tr>
<tr>
<td>Financial Inclusion (X1)</td>
<td>100</td>
<td>23</td>
<td>35</td>
<td>30.55</td>
<td>3.262</td>
</tr>
<tr>
<td>Financial Literacy (X2)</td>
<td>100</td>
<td>54</td>
<td>87</td>
<td>68.70</td>
<td>5.871</td>
</tr>
</tbody>
</table>

The minimum value of 1 for the MSME Performance variable as the dependent variable indicates that there are respondents who answer the questionnaire with the lowest possible answer being strongly disagree, and the maximum value of 5 indicates that there are respondents who answer the questionnaire with the strongest possible answer being strongly agree. With a mean score of 45.72 and a standard deviation of 4.931, we can infer that most respondents (but not all) selected both the agree and strongly agree options on the MSME Performance survey. This suggests that the data distribution is not overly dispersed.

The financial inclusion variable (X1) can take on values between 23 and 35, with a mean of 30.55 indicating that the majority of respondents checked the agree or strongly agree boxes, and a standard deviation of 3.262 indicating that the data distribution is not too extreme.

There is a range of 54-87 for the financial literacy variable (X2). With a standard deviation of 5.871, the data distribution is not too large, and the average value (mean) of 68.70 suggests that the average responder selects the agree option on the innovation questionnaire. sizeable because the standard deviation number is rather low.

b) Data Quality Test Results

Testing the reliability of an instrument reveals how much faith can be placed in it as a resource for the collection of data. The Alpha Cronbach technique was utilized in this study. If the alpha value of a research instrument is more than 0.60, then the instrument is considered dependable.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach Alpha</th>
<th>Cross of Values</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME Performance (Y)</td>
<td>0.872</td>
<td>0.60</td>
<td>Reliable</td>
</tr>
<tr>
<td>Financial Inclusion (X1)</td>
<td>0.757</td>
<td>0.60</td>
<td>Reliable</td>
</tr>
<tr>
<td>Financial Literacy (X2)</td>
<td>0.796</td>
<td>0.60</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

According to the findings of the test that were just presented, it demonstrates valid results because r count > r table. Because the alpha coefficient is greater than 0.60, it is possible to draw the conclusion that the variables measuring financial inclusion and financial literacy are reliable.
c) Classical Assumption Test Results

Use the Classical Assumption Test to check that these data follow a normal distribution, that there is no multicollinearity, autocorrelation, or heteroscedasticity, and that there is no multicollinearity. According to the findings of the normality test, if the data are distributed around the diagonal line and follow the diagonal line, this indicates that the regression model satisfies the normality assumption. The findings of this study's multicorrelation test showed a VIF value of 0.1, which is equal to 0.831, and as a result, it is possible to draw the conclusion that the regression model does not contain any instances of multicollinearity between the independent variables. According to the findings of the Heteroscedasticity Test, the points spread by origin and the position of their dispersion are both above and below the number 0 on the Y axis. This suggests that heteroscedasticity is not present in the data.

d) Hypothesis Testing Results

Table 3 Results of hypothesis testing

<table>
<thead>
<tr>
<th>Coefficients a</th>
<th>Model</th>
<th>Unstandardized Coefficient b</th>
<th>Standardized Coefficient Betas</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Constant</td>
<td>4.985</td>
<td>2.089</td>
<td>2.383</td>
<td>.017</td>
</tr>
<tr>
<td>Financial Inclusion(X1)</td>
<td>.189</td>
<td>.064</td>
<td>.125</td>
<td>2.880</td>
<td>.002</td>
</tr>
<tr>
<td>Financial Literacy(X2)</td>
<td>.504</td>
<td>.024</td>
<td>.858</td>
<td>19.583</td>
<td>.001</td>
</tr>
</tbody>
</table>

From table 3 above, the multiple linear regression equation model is obtained as follows:

\[ Y = 4.985 + 0.189X1 + 0.504X2 + e \]

1. \( t \) count value of 2,880 with a significance value of 0.002 and a \( t \) able value of 1,984 are presented. Because \( t \) count is greater than \( t \) able (2,880 > 1,984) with a significance (0.002 < 0.05), \( H0 \) is rejected and \( H1 \) is accepted. This demonstrates that financial inclusion has a notable impact on the performance of MSMEs. Thus \( H1 \) is accepted in this investigation.

2. \( t \) count has a value of 19.583 with a significance of 0.001; \( t \) able has a value of 1,984. Because \( t \) count is greater than \( t \) able (19.583 > 1.984), with a significance (0.001 < 0.05), \( H0 \) is rejected and \( H2 \) is accepted. This demonstrates that financial literacy has a substantial impact on the performance of MSMEs. So, \( H2 \) is accepted in this investigation.

e) The coefficient of determination

The coefficient of determination was analyzed to determine the proportional impact of each independent variable on the dependent variable.

<table>
<thead>
<tr>
<th>Model</th>
<th>( R )</th>
<th>( R ) Square</th>
<th>Adj ( R ) Square</th>
<th>Std error</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.917</td>
<td>.841</td>
<td>.838</td>
<td>1.964</td>
</tr>
</tbody>
</table>

Based on the results of the above test for the coefficient of determination, the adjusted \( R \) square value obtained is 0.841, indicating that the financial performance of MSMEs in the research sample is influenced by financial inclusion and financial literacy to the tune of 84.1%, with the remaining 15.9% being influenced by variables not investigated in this study.

Discussion

a) The Effect of Financial Inclusion on MSME Performance in Bekasi

Due to the fact that the value of \( t \) count is greater than \( t \) able (2,880 > 1,984), the first hypothesis test demonstrates significance (0.002 0.05). This means that \( H0 \) was rejected and \( H1 \) was accepted in
This study. This indicates that the results of this study support the first hypothesis that financial inclusion has an effect on the performance of MSMEs in the Bekasi regency.

Financial inclusion is one of the key determinants of the financial performance of MSMEs. With financial inclusion, MSMEs can more readily and affordably access a variety of financial products and services, such as loans, savings, and insurance. This can help SMBs increase their productivity and expand their market presence over time.

In the context of MSMEs, financial inclusion has a crucial role in improving financial performance. For example, MSMEs that have access to loans can use them to increase production and expand their business. That way, they can increase their income and make bigger profits. In addition, access to other financial products and services such as insurance can assist MSMEs in managing risks and reducing unexpected financial losses.

Therefore, financial inclusion can assist MSMEs in strengthening their financial stability and reducing uncertainty, which is frequently a barrier to business development. This can have a positive effect on local economic growth, lead to the creation of employment, and enhance the general welfare of society. These findings are consistent with the findings of Yanti (2019) and Ratnawati (2020), who found that financial inclusion has an effect on the financial performance of MSMEs.

b) The Effect of Financial Literacy on the Financial Performance of MSMEs in Bekasi

Financial literacy is the capacity to comprehend and apply financial information in decision-making. Financial literacy is crucial for MSMEs because it can assist them in better managing their finances and enhancing their financial performance.

Financial literacy can have a significant impact on the financial performance of MSMEs. For instance, MSMEs with superior financial literacy are typically more adept at managing their cash flow, optimizing expenses, and maximizing profits. Good financial literacy can also assist SMEs in making sound financial decisions and avoiding unnecessary financial risks.

In addition, financial literacy can also help MSMEs in accessing various financial products and services more easily and affordably. By understanding various financial concepts such as interest, credit and investment, MSMEs can make smarter financial decisions and choose financial products and services that suit their business needs.

However, there are still many MSMEs that do not have adequate financial literacy skills. This can hinder their ability to make the right financial decisions and maximize their business financial performance. Therefore, efforts are needed to increase MSME financial literacy through various training and education programs that suit their needs. This is in accordance with previous studies conducted by Amri & Iramani, (2018) and Septiani & Wuryani (2020) which stated that financial literacy is significant.

5. CONCLUSION

The findings of this study suggest that financial inclusion and financial literacy variables have an effect on the performance of Micro, Small, and Medium Enterprises (MSMEs) in Bekasi Regency. The magnitude of the effect of financial inclusion and financial literacy on the financial performance of micro, small, and medium-sized enterprises (MSMEs) is 84.1%, with the remaining 15.9% influenced by variables not examined in this study. This research's limitation is that data collection was not maximized, so it is hoped that future research will maximize the quantity of data collected. Besides that, the number of variables studied is only two independent variables, while many other variables are suspected of influencing the performance of MSMEs, therefore further research is expected to be able to examine other variables.

REFERENCES


