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## Analysis of the financial literacy level of Micro, Small and Medium Enterprises (MSMEs) in Jember, East Java, Indonesia

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## Analysis of the financial literacy level of Micro, Small and Medium Enterprises (MSMEs) in Jember, East Java, Indonesia

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**Abstract.** The Micro, Small and Medium Enterprises (MSMEs) are the economic actors who can support the Indonesian economy. The MSMEs need to have the ability in the field of finance (financial literacy). Capabilities in finance include financial planning, financial management, financial products, and business financing. The phenomenon that exists in Jember, East Java is still few who understand about financial literacy. This study aims to analyze the level of financial literacy among MSMEs in Jember, East Java. This type of research is a descriptive study with a qualitative approach. The subjects of this study were 40 people who were MSMEs in Jember, East Java. Data collection methods used consisted of interview methods, document methods, and observation methods. Analysis of the data used by using descriptive qualitative analysis. The results showed that the financial literacy of MSMEs in Jember was in the medium category. They should improve their understanding of personal finance, especially in the area of investment.

### 1. Introduction

The current era of the global economy requires individuals and society to understand the importance of financial literacy. This is intended so that individuals and the community can make financial planning better for their daily needs. They are expected to find the best solution when experiencing financial problems. The lack of understanding related to financial literacy will lead to errors in overcoming finance by seeking loans to non-formal financial institutions. As Wachira and Kihui said [1], the low level of financial literacy can result in a lack of utilization of available financial services, both with banking institutions, and other formal financial service providers.

Financial literacy is the ability in financial management that needs to be mastered by the community. The public is expected to be able to choose, access, and utilize products from formal financial institutions correctly. In addition, by understanding financial literacy, the community can manage and maintain their funds as best they can, such as saving and investing, or vice versa can find suitable credit to develop their business. The Financial Services Authority states that financial literacy is the level of knowledge, skills, public confidence related to financial institutions and their products and services as outlined in the index size parameters [2]. Lusardi, A and Mitchell, O. S [3] also believes that financial literacy is knowledge in finance and the ability to apply it in everyday life

Furthermore, Mason, C., & Wilson, R [4] argued that *financial literacy is a "meaning – making process "in which individuals use a combination of skills, resources, and contextual knowledge to process information and make decisions with knowledge of the financials consequences of that decision.* Thus, it can be concluded that financial literacy is the ability to manage finances, manage the funds owned to develop to maintain their survival, to be more prosperous in the future.

Reality that occurred in the field shows that the level of public financial literacy is still low. According to the OJK survey, although in 2017 the level of public financial literacy in 2017 was 31%, while in 2016 the level of financial literacy was 29.7% of the total population of Indonesia [5]. This showed that public awareness about the importance of financial literacy is still low. Meanwhile a senior consultant at One Shildt Financial Planning revealed, people who understand financial literacy are those who know about financial products, whether related to credit or financing, insurance or



investment and can make the right financial decisions for now and future. Thus, financial literacy will help the public and business people deal with problems, such as failures in financial management, mistakes in accessing formal financial institutions and even more fatal, business failures

The MSMEs has a very important role for the Indonesian economy, including in Jember Regency. The existence of MSMEs is an alternative form of strategy to support long-term development. Based on data from the Department of Cooperatives and MSMEs in Jember Regency up to August 2019, there were 4,097 MSMEs units spread across 31 subdistricts. The number will certainly continue to grow given the limited employment opportunities in the formal sector. Although the number of MSMEs continues to increase, they still experience various problems that will hamper business continuity.

An obstacle in developing their business is the capital factor. The main sources that can be obtained by MSMEs to run their business are capital and debt [6]. The external capital can come from bank loans which are generally difficult to access by MSMEs [7]. This was indicated by the number of MSMEs credit applications that are not approved by banks. In 2018, the number of loan applications approved by banks is still less than 70 percent because of reasons not meeting specified standards. As Urata said [8] that the problems faced by MSMEs related to capital because generally MSMEs have not been bankable either due to lack of transparent financial management or lack of managerial and financial capabilities.

Financial literacy is one of the determining factors for business success, including for the MSMEs. Otoritas Jasa Keuangan [9] classifieds the level of financial literacy in 4 (four) levels, namely:

- a. Well literate, the MSMEs which has 21.84% of knowledge and beliefs about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, and has skills in using financial products and services.
- b. Sufficient literate, the MSMEs has 75.69% of knowledge and beliefs about financial service institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services.
- c. Less literate, the MSMEs has 2.06% of knowledge of financial service institutions, products and financial services.
- d. Not literate, the MSMEs only has 0.41% of knowledge and confidence in financial service institutions and financial products and services, and do not have skills in using financial products and services.

Financial literacy does not only involve knowledge and ability to handle financial problems but also involves an interest in overcoming problems. This is usually demonstrated by the urge to choose something that is believed to fulfill his needs. The O.J.K states that there are 3 (three) dimensions of financial literacy, namely (1) calculation skills, (2) an understanding of basic finance, and (3) attitude towards financial decisions [10].

Whereas Willis, L.E [11] states that knowledge in the context of financial literacy includes knowledge, education, and information about finances and their sources, banking, deposits, credit, insurance, and taxes. The ability related to financial literacy will positively influence the ability to make financial decisions and household welfare and business [12]. Arimbawa [13], in his research on the creativity of the MSMEs in Central Java proved that the financial literacy will influence on the performance and sustainability of the MSMEs businesses.

In facts, there were a few Indonesian people have good financial literacy. Research which was conducted by the OJK proved that the level of financial literacy of the Indonesian people is still in the low category. This condition also happened to MSMEs which they had the low level of financial literacy. Riski and Rini [14], proved that the level of financial literacy of MSMEs in Tegal City is on an average of 11.79 on a scale of 0-20, which means the level of financial knowledge is in the low category. The low level of financial literacy will affect the ability of financial management. Gupta and Kaur [15] said that the MSMEs who have the low level of financial literacy will creates some obstacles in accessing the financial resources properly so that will influence the growth of income and business.

The development of the number of MSMEs in Jember should also be followed by the development of their understanding of financial literacy. According to Hapsari [16] in order to

increase their understanding of financial knowledge, it is necessary to look for factors that can influence financial literacy. There are several previous researches in term of factors that can affect financial literacy that have been carried in Indonesia. Mahdzan and Tabiani [17] proved that the demographic factors will influence to the financial literacy are age, gender, education level, number of children, marital status and work experience. In addition, research conducted by Riski and Rini [18] states that education level factors are factors that can influence financial literacy. Based on the results of previous studies, there are variations in the factors of the level of financial literacy, so researchers are interested in conducting research related to the analysis of the level of financial literacy and the factors that influence, among others, age, education level and business income.

Based on the background of the problems above, the objectives of this study include: (1) analyze the level of financial literacy of the MSMEs in Jember, East Java, whether classified as well literate, sufficient literate, or less literate, (2) analyze the factors that influence the level of financial literacy of students in terms of socio demographics in terms of gender, age, business scale.

## 2. Methods

This study was designed as a descriptive study with a qualitative approach to see a picture of the level of financial literacy of the MSMEs based on gender, age, education level. The unit of analysis in this study was 40 MSMEs in Jember Regency, East Java. The method used is survey research which is a research method to a group of objects, but only takes a portion of the population within a period of time. The variable used in this study is the financial literacy of the MSMEs in Jember, East Java. Data collection methods are surveys and questionnaires adopted from adopted from Mandell, L [19] and Keown, LA [20]. Categories to measure financial literacy include three categories, namely 1) <60% which means individuals have low financial knowledge 2) 60% -79%, meaning individuals have moderate financial knowledge 3) > 80% which shows that individuals have high financial knowledge (Chen, H and Volpe, R.P [21]. Data obtained from the results of this study were analyzed using descriptive statistical analysis

## 3. Results and Discussion

The results show a general description of respondents seen from the socio-demographic in Table 1 below

**Table 1.** Overview of The MSMEs in Jember, East Java Based on the Sosio Demographic

Componen	Frequency	Percentage
<b>Gender</b>		
Male	28	70 %
Female	12	30 %
Total	40	100%
<b>Age</b>		
> 10 – 25 years	4	10%
> 25 – 40 years	22	55%
> 40 – 55 years	11	28%
> 55 years	3	7%
Total	40	100%
<b>Educational level</b>		
Junior High School	8	20%
Public/Vocational Senior High School	27	67%
Bachelor	5	13%
Total	40	100%
<b>Years of enterprises</b>		
5 years	6	15%
> 5 – 10 years	16	40%
> 10 – 15 years	16	40%
> 15 years	2	5%
Total	40	100%
<b>scale enterprises</b>		
Micro	22	55%
Small	15	38%
Medium	3	7 %
Total	40	100%

Based on Table 1 above, it can be seen that the respondents in this study were 28 men or 70% and 12 women or 30%. In terms of age, most respondents were at the age of > 25-40 years, where at that age respondents were still very productive. Education from respondents shows that most respondents have a high school / vocational education background. Judging from the length of business it appears that respondents with a business of > 50-10 years and > 10-15 years, the number is the same, each 16 people or 40% .. Judging from the business scale, as many as 22 people or 55% are on the micro scale

**Table 2** Percentage of Truth Answer Respondent Based on Financial Literacy Questionnaires

Specific Focus of Financial Literacy	Correct Answer (%)
Banking Product	74%
Bank other money institution	46 %
Saving	88 %
Time value of money	68 %
Compound interest	40 %
Tax	45 %
Interest	55 %
Inflation	40 %
The Importance of Investing	65%
Product Knowledge of Investment	45 %
Capital Market	65^
Risk and Return	41 %
Capital Gain	35%
Investment Analysis	64%
Portfolio	44 %
Diversification	56%
Fund	40%
Funding Mechanism	31%
Life Insurance	25%
General Insurance	18 %

The rating level of students' financial literacy level is scored based on the percentage of respondent correct answers. Overall, the result showed as follows:

**Table 3** The Students Financial Literacy Level

Level	N	Percentage
Well literate	0	21,84 %
Sufficient literate	14	75,69 %
Less literate	21	2,06 %
Not literate	5	0,41 %



From the table above, it can be seen that the level of student's financial literacy of the MSMEs of based on the percentage of respondent answers correct. The majority of the financial literacy of the respondents is at less level (2,06%). The lowest answer percentage is in insurance, 25% answer correctly the question related to personal insurance, and 18% answer related to general insurance.

The result shows that gender affect 59 % to the MSMEs financial literacy. Suryanto and Mas Rasmini [22] found that the level of financial literacy of the MSMEs is medium level. The Age factor affect positively and significantly to the MSMEs level of financial literacy is 64 %/ The results of the study are in accordance with previous study of [19], which found that gender factors affect the level of The MSMEs financial literacy.

#### 4. Conclusion

The result of the study shows that gender, age, scale enterprises and educational background contribute in the MSMEs' financial literacy. This research done to 40 respondents find that the level financial literacy of the MSMEs are in less level (2.06%). The lowest answer percentage is in insurance 25% respondents chose the question in related with personal insurance, and 18% who managed to answer questions of general insurance. The Factor analysis find that gender has affect of 59% to the MSMEs financial literacy, and Age has effect of 63%

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