



## SIMPOSIUM ILMIAH AKUNTANSI 5

### THE EFFECT OF FINANCIAL LITERACY ON FINANCIAL INCLUSION IN MSMEs

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#### ABSTRACT

Financial inclusion is the availability of financial public service products according to the needs and possibilities of the financial public. The development of digital technology has affected many industries, including the financial sector. This article is the result of a review which aims to determine the influence of financial literacy on financial inclusion in MSMEs. Review results using Systematic Literature Review (SLR) from research published in journals sourced from online media such as Google Scholar, Science Direct, Scopus and other academic media from 2018-2022. Data collection was carried out by identifying or reviewing all articles that had the same research topic in this study. The articles used in this research were 15 national articles. This results of this literature review show that Financial Literacy Influences Financial Inclusion in MSMEs.

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#### INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) generally provide enormous potential in developing a country's economy. MSMEs as one of the pillars and foundations of a country's economy can contribute to increasing the income of people from the lower and middle classes and even Gross Domestic Product (PDB) through optimizing revenue from the tax (excise) sector. The existence of MSMEs as strategic partners in the country's economic activities, not as a subsidiary of a company or branch of a company, but as a form of individual business or a group of people. MSMEs are a business activity engaged in various business fields and are in direct contact in meeting the interests and needs of the community. The Ministry of Cooperatives and Small and Medium Enterprises (Kemenkopukm) noted that there were 64,2 million units of micro, small and medium enterprises (MSMEs) in Indonesia in 2021. Micro enterprises, with a maximum turnover criterion of IDR 2,000,000,000 per year, are the most dominant in the MSME structure. Micro enterprises achieve 63,955,369 units in 2021 or contributed 99.62% of the total business units in Indonesia. The proportions have not changed much in the past 10 years. While the number of small businesses, with a turnover criterion of IDR 2,000,000,000 - IDR 15,000,000,000 per year, there are only 193,959 units. This business contributes 0.3% of the number of MSMEs. Furthermore, medium enterprises, with sales criteria of IDR 15,000,000,000 - IDR 50,000,000,000 per year, the amount is 44,728 units or equivalent to 0.07%. Finally, large businesses as many as 5,550 units or 0.01%. This business criterion has a turnover of more than IDR 50,000,000,000 per year.

Some countries such as Japan and the United Kingdom emphasize the importance of having an adequate level of financial literacy as a prerequisite for improving financial wellbeing. Financial literacy is very important for MSME entrepreneurs because financial literacy can empower MSMEs about funding sources and skills that will equip MSMEs to weigh their options in finding financing to optimize their financial structure (Soetiono, K, S & Cecep, 2018). Indonesia's G20 Presidency reiterated the importance of digital financial inclusion and MSME financing to reduce inequality due to global uncertainty as a result of the pandemic and geopolitical conditions. This is in line with the spirit of Recover Together, Recover Stronger so that economic recovery can be accelerated. Every country needs a financial inclusion framework

to encourage digitalization that has an impact on increasing productivity, as well as an inclusive and sustainable economy, especially for MSMEs, young people, and women. At the same time, it is necessary to strengthen MSME financing guidelines (B. Indonesia, 2022).

Based on the results of SLNIK 2022, it shows that the financial literacy index (financial understanding) of the Indonesian people, including MSME players, is still low at 49.68%, but it has increased in 2022 which is only 38.03%. While the financial inclusion index (financial service products) in 2022 reached 85, 10% increase compared to the previous SLNIK period in 2019 which was 76.19%. This low level of financial literacy refers to the measure of Chen & Volpe (1998), where the level of financial literacy in the category is relatively high if the value is more than 80%; the level of financial literacy in the medium (medium) category is between 60% - 79%; while the level of financial literacy is in the low category if the value is below 60%. Therefore, the existence of literacy and financial inclusion needs to be a serious concern for the community, especially MSME actors so that the business activities they carry out have a positive impact on their business development both in the short and long term.

## THEORETICAL REVIEW

### *Micro, Small and Medium Enterprises*

It can be said that micro, small, and medium enterprises constitute the majority of community activities that contribute significantly to the income of business actors. Based on Law Number 20 of 2008 concerning micro, small and medium enterprises defined as follows:

Table 1. MSME Criteria Based on Assets and Turnover

Criteria	Micro Business	Small Business	Medium Enterprises
Asset	Net worth up to IDR 50,000,000 excluding land and Business Building	Net Worth IDR 50,000,000 to IDR 500,000,000 Excluding land and Business Building	Net Worth IDR 500,000,000- IDR 10,000,000,000 yet including land and business buildings
Turnover	Sales proceeds up to IDR 300,000,000 per year	Sales Proceeds IDR 300,000,000 to IDR 2,500,000,000 per year	Sales proceeds IDR 2,500,000,000 to IDR 50,000,000,000 per year

MSMEs are the largest business group classified based on certain business classifications, including the agriculture, trade, transportation and other service processing sectors. The MSME sector has proven to be able to survive in a state of monetary crisis and is able to play an acceleration of national economic growth. The existence of sustainable competitiveness is important for MSMEs to meet standardization through a cluster approach to be more effective and efficient in financing patterns.

### Financial Literacy

Literacy was introduced in the 19th century, which has meaning in social relations related to knowledge, language and culture that govern how to communicate widely. People with high financial literacy have the potential to provide high productivity or competitiveness values so that they are able to realize financial welfare without exception (Soetiono & Setiawan: 2018). Quoted from the [ojk.go.id](http://ojk.go.id) website page (OJK, 2020b), financial literacy is a knowledge, belief and skill that can influence behavior and attitudes to improve quality in decision making and financial management in order to achieve Welfare. (OJK, 2020b). Meanwhile, according to the Organization for Economic Co-operation and Development or OECD (2016) defines financial literacy as understanding and knowledge of financial concepts and risks, including in terms of skills, beliefs, and also motivation in applying understanding and knowledge in making more effective financial decisions in order to achieve prosperity.

According to Iko Putri Yanti, 2019 Financial literacy is a combination of financial knowledge and skills, and it will help business owners make wise financial decisions and choices. *The Association of Chartered Certified Accountants* (2021) formulates that the concept of financial literacy includes knowledge of financial concepts, the ability to understand communication about financial concepts, the ability to manage personal/corporate finances and the ability to make financial decisions in certain situations.

### **Financial Inclusion**

The essence of financial inclusion is all efforts that aim to eliminate all forms of price and non-price barriers to public access to the use of financial services by minimizing costs. Financial inclusion is defined as a condition when financial products and services can be accessed, used, and utilized at affordable prices and good quality and availability can be provided to everyone to improve their welfare (Gardeva & Rhyne, 2011).

The Global Financial Development Report (2014) defines Financial Inclusion as a condition where the majority of individuals can take advantage of available financial services and minimize the existence of groups of individuals who are not yet aware of the benefits of financial access through access that is available at no cost which is high.

Based on Presidential Regulation Number 82 of 2016 concerning the National Financial Inclusion Strategy, financial inclusion is a condition where every member of the community has access to a variety of quality, timely, smooth, and safe formal financial services at affordable costs according to their individual needs and abilities.

According to Durai & Stella (2019), financial inclusion is a process of ensuring access to adequate financial and credit services at affordable costs. With optimal financial inclusion, it is expected to be able to realize accelerated economic growth, sustainable development, and improve community welfare equally.

### **RESEARCH METHODS**

Literature Review is a description of theories, findings and other research materials obtained from reference materials to be used as a basis for research activities to compile a clear framework of the formulation of the problem to be researched. The ultimate goal of literature review is to get a picture of what others have done before. Literature review or also called literature search review is the first step to collect relevant information for research. Literature search is useful to avoid duplication of research implementation. With a literature search, it will be possible to know the research that has been done before.

Literature review contains a summary review and the author's thoughts on several library sources (can be articles, books, slides, information from the internet, etc.) related to the research topic discussed. Good review literature must be useful, relevant, and adequate. Theoretical foundations, theory reviews and literature reviews are all ways to conduct literature reviews. Literature review is a way to find, search for articles, books and other sources such as theses, dissertations, proceedings that are relevant to a particular content or theories or research that are of interest to the researcher. The review literature obtained is usually still general or general (general problem).

The method used in this writing is a literature review which is a systematic, explicit and reproducible method for identifying, evaluating and synthesis of research works and thoughts produced by researchers and practitioners (Rahayu et al. 2019). Literature sources used in the preparation of this article / research with literature review through National and International Journal Websites such as Google Scholar, Science Direct, Scopus. **(The Effect of Financial Literacy on Financial Inclusion).**

Method of searching for articles in research journal databases and searching via the internet. The database searches used were Google Scholar, Science Direct and Scopus from 2018 to 2022. For article search, the keywords used are also included in the data collection is the Effect of Financial Literacy on Financial Inclusion.

## DISCUSSION

Financial inclusion is the availability of access to various financial institutions, products, and services in accordance with the needs and capabilities of the community in order to improve community welfare (POJK Number 76/POJK.07/2016).

The results of this literature review show that the level of Financial Literacy has a positive effect on Financial Inclusion. Thus, the increase in Financial Literacy greatly affects the increase in Financial Inclusion in Indonesia. The results of this research are an opportunity to strengthen knowledge, loyalty and community commitment to the development of the national economy. The study of Financial Literacy has a trend of increasing the number of research articles from year to year. In the context of Micro, Small and Medium Enterprises (MSMEs), there are several similarities in the journal in terms of determining the desire of MSME actors in using financial services. Financial literacy plays an important role in determining people's desire to use financial services. The high level of financial literacy can improve welfare because with the increase in the level of financial literacy, people can make better financial decisions so that planning Family or personal finances become more optimal, which in turn can increase financial inclusion in Indonesia. The benefits of financial literacy are very important because the higher the level of financial literacy of the community, especially MSME actors and students, the more people will use financial products and services. So that it will encourage overall economic growth and create equal distribution of income and welfare.

*The Association of Chartered Certified Accountants* (2014) formulates that the concept of financial literacy includes knowledge of financial concepts, the ability to understand communication about financial concepts, the ability to manage personal / corporate finances and the ability to make financial decisions in certain situations. Lusardi (2012) states that financial literacy consists of a number of abilities and knowledge about finance possessed by a person to be able to manage or use a certain amount of money to improve his standard of living.

Increasing financial literacy has a significant impact on the financial inclusion of Micro, Small and Medium Enterprises (MSMEs). High financial literacy among MSME players can produce a number of positive effects.

1. Access to Funding

Financial literacy increases the ability of MSMEs to access various sources of funding, such as loans and venture capital. Good knowledge of financial instruments allows MSMEs to submit loan applications with more confidence, understand the risks and benefits.

2. Effective Financial Management

A deep understanding of financial literacy helps MSME actors in managing their business finances more effectively. This includes budget planning, cash flow tracking, and financial risk management capabilities, all of which support business stability and growth.

3. Wise Investment Decision Making

Financial literacy enables MSMEs to make wiser investment decisions. They can evaluate investment projects, understand potential returns, and plan long-term financial strategies.

4. Use of Modern Financial Services

Understanding financial literacy also facilitates the use of modern financial services, such as digital banking and electronic payments. This can improve the operational efficiency of MSMEs and open access to a wider market.

5. Competitiveness

MSMEs that have good financial literacy can become more competitive. They can adapt to market changes, better manage risk, and conduct their business operations more sustainably.

Thus, the influence of financial literacy on MSME financial inclusion not only creates a more inclusive financial environment, but also contributes positively to the development and resilience of MSME businesses as a whole.

According to research conducted by I Nyoman Patra Kusuma (2019) with the title: *The Influence of Financial Literacy on Financial Inclusion through Financial Technology in MSMEs in Bandar Lampung* which produces Financial Literacy has a significant effect on financial inclusion. This shows that the higher the financial knowledge, the better one's financial behavior

and financial attitude will increase the use, utilization and understanding of financial products and services. This is reinforced by the answers of respondents who have the highest scores related to financial literacy where MSMEs in Bandar Lampung City already believe and also understand about investment in the form of returns and investment risks, so that These MSME business actors by investing as early as possible are expected to provide benefits for them in the future.

Financial technology can mediate between financial literacy and financial inclusion. With the development of technology that occurs, financial technology issued by the bank is able to help its customers or service users in accessing the services they offer. So that in general, the community, especially MSME actors in the city of Makassar, can monitor freely their financial situation anywhere and at any time, so that MSME actors can easily make decisions or choices in setting plans and policies related to managing their financial situation. With the development of financial technology that can remove obstacles in reaching service facilities provided by banks, it can increase people's financial literacy or knowledge and an understanding of their financial situation, so that the community, especially MSME actors in various cities, can easily make their choices in managing their finances that can reduce future risks.

High financial literacy (well literate) increases MSME awareness of the importance of financial planning and management which will ultimately improve the business run. With good financial literacy, the ability to choose and use financial products and services will always look at the risk profile to be obtained, this condition will reduce unwanted things. In this case, it will increase the level of financial inclusion and reduce credit growth in the informal sector. Armed with skills, attitudes and knowledge about risk and interest rates in financial institutions, MSMEs will be more confident and able to reach the use of financial products and services easily so that the level of banking penetration will increase by increased account ownership at financial institutions. So, this result is in line with research conducted by (Sohilauw, 2018); (Yuwono et al., 2017); (Hutabarat: 2018) which states that good financial literacy will open financial inclusion.

Financial Literacy affects Financial Inclusion, this statement is supported by previous researchers, namely:

1. In their research, Lia and Nurdin (2017) suggest that financial literacy is a must for each individual to avoid financial problems because individuals are often faced with trade off, which are situations where someone has to sacrifice one interest for another. By applying the right way of financial management, individuals are expected to get maximum benefits from the money they have.
2. In their research, Mindra & Moya (2017) suggests that financial literacy has a positive influence on financial inclusion with model results showing that positive changes in the level of skills, knowledge and understanding as well as basic financial concepts about finance services and are associated with increased financial inclusion in terms of access, use, and quality among individuals.
3. A study (Sari and Kautsar, 2020) states that if a person understands financial literacy, he is interested in more effectively using various financial products and services available.
4. According to Putri et al, 2022 Financial inclusion has become an important topic of conversation both internationally and nationally, and to boost the economy and alleviate poverty, financial inclusion programs are indispensable to make the financial system more accessible.

## CONCLUSION

This study concludes that the level of financial literacy has a significant effect on financial inclusion in Indonesia. So, this shows that socialization is needed regarding the importance of financial literacy to the community, especially MSME actors and students. This research is expected to have beneficial implications, especially for technical strengthening of financial inclusion through understanding financial literacy. This study also recommends that the banking industry as the owner of financial services and also the government to collaborate with higher education and also other communities in conducting socialization, campaigns and understanding movements about financial literacy.

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