Identification and Strategy for Improving Financial Literation and Inclusion of Rural and Urban Communities in Banyuwangi Regency, Indonesia

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ABSTRACT

The financial sector with a variety of derivative products has become an important thing in supporting the smooth economic and social activities of the communities. The research purposes are to identify the level of financial inclusion and literacy develops a strategy for developing financial literacy and inclusion of rural and urban communities in the Banyuwangi Regency. The method used descriptive analysis method by looking at the value of financial literacy and inclusion based on banking penetration, banking service, and banking system in rural and urban communities of Banyuwangi Regency and used SWOT analysis. The results showed that in the aggregate financial inclusion and financial literacy of urban communities in the Banyuwangi Regency showed characteristics of a good inclusion pattern, while people in rural areas showed a fairly good inclusion pattern. This is indicated by the availability of a sufficient number of banking institutions with financial service facilities, the public's need for formal financial institution services and the intensity of community involvement in the use of formal financial institution services. However, some people still have limitations in reaching finance due to the availability of services that are still relatively far from the community and the level of financial literacy is still low.
Keywords: Financial Literacy, Financial Inclusion, Banyuwangi Regency

1. INTRODUCTION

In a macro perspective, the development of financial inclusion has a positive impact on a country's economy, in addition to being a supporting factor in driving the pace of economic growth, financial inclusion also plays an important role in creating financial system stability, reducing poverty, unemployment, and individual disparities between regions [1] [2] [3]. The creation of better financial inclusion allows greater access to funding so that it is expected to open the way to better community welfare [4] [5] [6].

The financial system becomes important in an economy to support the economic activities of the community through financing from financial institutions. Financial institutions consisting of banks and non-banks are the masters of financial assets in Indonesia. The phenomenon of low financial access and the fragility of the banking system is evidence that institutional development is a prerequisite that must be met which is supported by appropriate regulations [2] [7] [8]. The financial sector with a variety of derivative products has become an important medium in supporting the smooth economic and social activities of the community. This condition is increasingly conducive to the rapid development of information technology so that financial access can reach various community groups. Financial literacy and inclusion have become a government program whose aim is to encourage a financial system that is accessible to all levels of society so that it is expected to increase economic growth and overcome community poverty [6] [9] [10]. The financial literacy and inclusion program is based on the results of a survey conducted by the World Bank and Bank Indonesia that shows the low level of public accessibility to financial institutions. Based on a World Bank survey in 2014, it shows that in Indonesia only 29.2 percent of adults have accounts in formal financial institutions [11]. This figure is below Vietnam 31.6 percent, Philippines 36.1 percent, India 40.3 percent, Malaysia 66.7 percent and Thailand 77.8 percent. While based on the results of the Household Balance Sheet survey from [12] that 51 percent of households have no savings at all.

Constraints faced in expanding financial literacy and inclusion are the constraints faced by society and the constraints faced by financial institutions. Constraints in society are the low level of understanding of financial management and the cost of opening an account and administrative costs which for some people are considered quite burdensome. While constraints in borrowing are fulfilling the requirements of the formal legal aspects of the business owned, the lack of information about banking products, or products that do not meet the needs. While constraints at the level of financial institutions include limited area coverage and expanding office networks, lack of

information about potential customers, and limited information on consumer finance.

The area in the former residence of Besuki has 117 banking offices consisting of 44 commercial bank branches, 53 head offices of the Rural Credit Agency, and 20 BPR branch offices spread across 95 sub-districts. However, of the 5.3 million people in the four areas of the former residence of Besuki, namely the districts of Banyuwangi, Bondowoso, Situbondo and Banyuwangi, only 1.92 million people saved or 2.79 people only had one savings account. While for the level of East Java Province, every 1.85 residents have one savings account or around 54.05 percent of the people in East Java Province have savings in the bank.

This condition illustrates that the need for the financial sector is very important in supporting the dynamics of community activities. The financial industry provides momentum in supporting economic growth through the intermediary function of financial institutions so that financial inclusion and literacy need to be improved. The intensification of the financial inclusion and literacy program also occurs in the regions. Banyuwangi Regency as a barometer that supports economic growth in the eastern region of East Java Province makes the policy of literacy and financial inclusion as an effort to encourage the financial sector as an *engine of growth* regional economic. Banyuwangi Regency is an area that has geographical proximity and similarities in the socio-cultural characteristics of the community. But on the other hand, the phenomenon that occurs is the low financial inclusion of the public, which is only 37.9 people who have accounts in banks, as one of the banking products. The purposes of the studies were to determine the level of financial inclusion and literacy of people in Banyuwangi Regency and analyze the conditions, potential, and constraints of financial literacy and inclusive growth in Banyuwangi Regency

2. LITERATURE REVIEW

Financial inclusion, in general, gives an illustration of the *unbanked population, the* limited public access to the formal financial system in terms of saving, payment, credit and insurance activities. Therefore there is a need for policies that are affirmatively designed to eliminate various obstacles to financial access [13] [14]. Specifically, the definition of financial inclusion focuses on three key aspects: (a) access to financial products and services; (b) financial capability (manage money effectively, plan for the future andovercome financial difficulties); and (c) financial literacy.

Further looking at the context of the inclusion development paradigm in a country [15] [16] divides four important factors in measuring the development of financial inclusion in a country. These factors include accessibility, quality, utilization, and impact. The first factor is approximately that access and availability provide more articulation on measuring public access to formal financial institutions. This includes the supply side of financial services such as credit, savings, payment and clearing systems and so on. Therefore, to evaluate access and availability, potential obstacles such as geography and infrastructure must be carefully identified.

Determination of the level of accessibility gives an understanding of how the main determinants are estimated as a proportion of the population who can access or have access to financial services.

Definitively, financial literacy has a variety of different definitions. Financial literacy can be interpreted as the ability to effectively evaluate and manage finances in achieving good finance [17]. [18] define financial literacy as knowledge of reality and references in managing finances successfully. Meanwhile according to [19] that financial literacy is a person's basic knowledge to be able to survive in modern life with increasingly complex principles in spending, savings, and investment.

[20] found that low financial literacy is influenced by age for cases in the United States as well as the study of [21] that age is a significant factor in financial literacy in India and Indonesia. Another factor is *gender* as the study of [21] [22] [19] [20] which explains that differences *gender* are too large in Sweden where women rarely make economic decisions in the household. The [23] [24] studies show that women have a lower level of interest in investment and finance and rarely use financial services than men. The third factor is the level of education. The studies of [21] [25], [19] [20] found that people with higher education levels had more financial knowledge than people with low education levels.

3. RESEARCH METHODOLOGY

This research is an explanatory research type because it provides an overview or description of the level of financial inclusion and literacy of people in the Banyuwangi Regency. In addition, this study also aims to determine the level of financial inclusion and literacy in the Banyuwangi Regency and analyze the conditions, potential, and constraints of financial literacy and inclusive growth in Banyuwangi Regency. Determination of the location of the study was done deliberately or purposive sampling, namely in Banyuwangi Regency. The consideration of district selection is that Banyuwnagi is the regency with the fastest movement in GRDP growth in East Java compared to other regencies/cities. While the respondents that were sampled in this study were households in five sub-districts in Banyuwangi, namely Banyuwangi, Genteng, Songgon, and Sempu, which were randomly sampled based on family cards at the local sub-district office. The number of respondents for each sub-district was 20 people so that the total respondents were 80 respondents consisting of housewives, both government and private workers and students or students. Selected respondents are those aged over 18 years to 60 years who are considered mature in making decisions and managing finances. Then it will also include respondents from Banking Representatives and Other Financial Institutions in Banyuwangi Regency. The type of data that will be used is the perception data from respondents and existing data so that the analysis method used in this study is a quantitative approach in the form of quantitative descriptive.

Financial literacy and inclusion calculations are used to answer the first research objective, which is to find out the

magnitude of the level of financial inclusion and literacy in Banyuwangi Regency. Financial inclusion is calculated using several dimensions, namely banking penetration (BP), banking service (BS) and banking system (BU). The dimension banking penetration (BP)is the number of people who are financially affordable (banked population) such as the number of adults who have an account at a bank whether for a deposit account, credit account or loan account. Dimensions banking service (BS) is the availability of banking services such as the number of banks per 1000 population or the number of Automatic Teller Machine (ATM) per 1000 people, the number of bank staff who serve customers. The banking system dimension is the concept of underbanked or marginally banked or residents who use a little banking service.

The level of financial literacy is calculated using simple weights both for the classification of the level of basic financial literacyand the level of advanced financial literacy. Simple weight for each indicator is the same because it uses the average of all indicators in each classification. Each literacy level has several components that serve as indicators in assessing the level of financial literacy. Components or indicators for each literacy classification will be calculated on average in aggregate based on the results of respondents' assessments of several indicator questions. As for the basic literacy level, there are 11 indicators or criteria ranging from respondents' knowledge about the completeness of the requirements in opening an account at a bank to the calculation of interest and the effect of inflation and money illusion. For the level of financial literacy, knowledge indicators are used more at bank financial institutions, bearing in mind the majority of people use the services of banking financial institutions compared to other financial institutions. While the assessment of level indicators advanced financial literacy emphasizes more on the knowledge of instrument products in the capital market as the largest other financial market besides the money market. SWOT analysis isused to analyze the conditions, potential, and constraints of literacy growth and financial inclusion in the Banyuwangi Regency. SWOT analysis is the systematic identification of various factors to formulate a strategy. This analysis is based on the logic that maximizes the strengths and opportunities but simultaneously could minimize the weaknesses and threats. The strategic of decisions making process is always related to making the mission, objectives, strategies, and company policies. Thus the (strategic planner) should be analyze the strategic factors (strengths, weaknesses, opportunities, and threats) in existing condition.

4. RESULT AND DISCUSSION

4.1 The Financial Literacy and Inclusion in Banyuwangi Regency

Access to financial institutions is a necessity for the community in line with the dynamics of economic activities that are increasingly massive and without knowing the

boundaries of the region. The role of banks as financial institutions with the largest composition of assets and ownership of financial products among the financial institutions, makes banking an important medium in facilitating all economic activities of the community in all regions. The large number of people who have not yet been reached by the banking sector has become an important task of the authority of financial institutions in increasing the accessibility of public finances, especially in areas that are difficult to reach and communities with low levels of financial literacy. Field studies show that 55% of people are reluctant to access banking institutions because there are problems with the requirements for filing accounts. Bureaucracy that is so complicated makes people feel complicated by financial institutions so that financial institutions that are close to the community are still too far away to reach. In addition, 33% of people perceive that the submission process also requires a long time. When compared to non-formal financial institutions that facilitate the submission process, the public is reluctant to move to formal financial institutions. In Banyuwangi District, the availability of the number of banks in each sample area 84 percent according to the opinion of respondents already exists and another 16 percent said there is nothing around their residence. The difference in opinion arises because some respondents did not have information about financial institutions. It is also caused by the distance of residence to the bank. The average distance between a residence and a bank is less than 5 km by 99 percent and more than 10 km by 1 percent. Meanwhile, the average number of banks ranges from one to two banks.
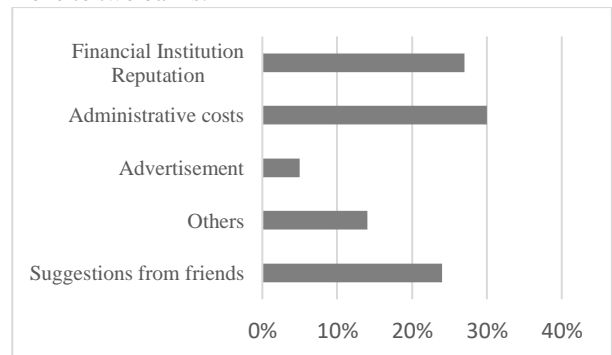

Fig. 1. Factors of considering the selection of financial products. Source: Primary data, processed, 2019

Public knowledge of the choice of financial services taken is inseparable from several factors, including advice from friends or colleagues, advertising, administrative costs, or the reputation of financial institutions. These factors are a common part of encouraging people to access financial services. Most Banyuwangi people mentioned that the reason for choosing financial products was based on administrative costs, with a percentage of 30%. Other factors that are considered are the reputation of financial institutions with a percentage of 27%, recommendations from friends or colleagues by 24%, based on advertising information by 5%, and other factors by 15%. The results indicate that the price of financial services is an important part of the consideration

of the selection of financial services in the Banyuwangi Regency.

The introduction of *mobile banking* that is being used by most respondents provides new facilities in conducting transactions such as bill payments, transfers, *checking,* and so on. However, this financial institution innovation has not fully facilitated transactions because some transaction activities forced respondents to come directly to financial institutions or ATMs. For example, cash withdrawal and cash deposit transactions must not be done using an ATM machine and at the office of the financial institution in question. Another reason respondent do not like to use ATM machine facilities is because of frequent problems in the use of ATMs. Generally, the problems on inclusiveness are felt by the public are because the ATM is being interrupted, the ATM balance is empty, the ATM machine is *offline* or is dead or even being repaired, as well as other reasons.

Around 61 percent of people have used *mobile banking* and in general, are students and employees who have been *well literate* against financial institutions and can use information technology that has been provided by the banks. While 40 percent of the people have not used this facility because they cannot use information technology facilities through *mobile banking*. Therefore, in this case, banks need even more intensive efforts in introducing or socializing the public to the use of *mobile banking* or *branchless banking*. This will facilitate the public in accessing information and financial transactions without having to come directly to the bank. Generally, the use of *mobile banking* is to check balances and other banking transactions such as transfers and bill payments.

In terms of credit, most people have used credit facilities offered by financial institutions, which are 33 percent and only 67 percent have not used credit facilities. Some people have used banking as a credit application agency and a few others still use other financial services including loans to moneylenders who are considered easier than the terms, procedures and obtaining access to credit which are generally done on a basis *door to door*. Some people still consider applying for credit through banks is still complicated by the conditions, administrative procedures, and guarantees that must be owned by the community. Another perception is that the public assumes that credit applications can only be made by customers who have very high transactions and balances, which is the level of the public at the manager or director level. The average type of credit proposed by the public is 70 percent for business loans and 17 percent for home loans. This shows the public interest in applying for business loans is quite high and is an interesting indication in developing the real sector. This is in line with the banking mission in developing and increasing access to finance or business financing, especially Micro, Small and Medium Enterprises (MSMEs).

The submission of business loans is now busy in the community because these loans can cover almost the entire business needs to be planned. Especially now that business loans offered by banks are more easily accessible to the general public. Home loans are now also being used by many people. The community's decision came as a result of a housing promo that partnered with financial institutions in

providing credit to consumers. Credit offers by housing providers have been responded positively by consumers because housing product innovations are considered more effective. Therefore, housing payment transactions are more varied, which can be adjusted to the economic capacity of consumers. While the majority of consumer credit is used by women. The form of transactions that mostly occur in traditional markets causes the level of need for credit card services is still low. The growth and development of financial services and digital markets do not necessarily change the transaction activities that develop in the Banyuwangi community to become *cashless* or non-cash. Cash transactions are still a major part of transaction activities in the Banyuwangi Regency.

Table 1 Indicators for the Assessment of Public Financial Literacy Level

Indicators and Weights Level of Financial Literacy			
Financial Literacy Basic	Weight	Advanced Financial Literacy	Weight
Completion of KTP	0.09	Capital Market Function	0.10
Minimum amount of money opening an initial savings account	0.09	Interest Rate and Price of Securities or Bonds	0.10
Minimum amount of savings account balance	0.09	Stock and Bond Income	0.10
Government Deposit Guarantee	0.09	Stock and Bond Risk	0.10
Calculation of Simple Interest Rate	0.09	Understanding Buying Stock	0.10
Interest rate calculation Compounded Interest	0.09	Definition of Bond Buying	0.10
Calculation rate Credit	0.09	Selling Penalty Bond Before Maturity	0.10
Inflation	0.09	Investment option with High Gain	0.10
Discounts	0.09	Investment Options with High Risk	0.10
Money Value	0.09	Investment Diversification	0.10
Money Illusion	0.09		

Source: Primary Data, processed, 2019

Based on the results of an analysis of the level of financial literacy, in aggregate the level of financial literacy on urban community in Banyuwangi Regency is low at 38.37 with the classification of basic financial literacy with an index value of 54.85 which is in the moderate or moderate category, while for advanced financial literacy is in the low category

that is 21.89. This condition is inversely proportional to the financial dynamics with the number of financial institutions both banks and non-banks and all kinds of services and financial products that are quite rapid. This is due to the fact that the Banyuwangi Regency is classified as a regency with relatively high economic growth marked by a variety of economic and socio-cultural activities and as an epicenter of education in the eastern part of East Java Province. So that the flow of money is also high proportional to the dynamics of activities that develop in the community. But this still does not foster a level of literacy or public literacy in financial services. As for advanced knowledge, it is true that in general people have low literacy because they have not been supported or the number of capital market securities institutions is still low in Banyuwangi and not all people get information about the capital market. The level of basic financial literacy can be seen based on the socio-demographic of the respondents, among other indicators of income, education, gender, and ownership of financial products. So, it can be seen how much the distribution of public financial literacy in three categories is determined by the social demographic conditions of the community.

Based on the level of income, the distribution of basic financial literacy in the community is low in the low-income group as well, namely 51.25 percent, while for the moderate level of literacy is concentrated in the income group between Rp. 4,000,000 up to Rp. 6,000,000 and high literacy rates are in the high-income group of Rp. 6,000,000 to Rp. 8,000,000. The distribution pattern of the relationship between basic financial literacy and income level is directly proportional to the ability of the community to manage and use finance through financial services. The higher the level of income the higher the level of financial literacy. Meanwhile, when viewed from the level of education has an uneven distribution pattern. The low level of financial literacy is concentrated in people with low levels of education ie not attending school and graduating from elementary school (SD), the level of moderate financial literacy is concentrated at the level of high school education (SMA) up to graduate level two (S2). Whereas for the high level of financial literacy, there is an uneven concentration, namely there are some groups of people with graduation from elementary school who have high literacy, and some graduated from high school 8.11 percent, and the most are in groups with Diploma strata up to graduate level S2. This shows that the higher the education, the higher the level of financial literacy, but a small proportion of other people with low education have well literacy. In terms of gender, the community groups with low literacy levels are women, 52.94 percent and 46.15 percent men. Moderate literacy rates are in the highest group of women, 25.49 percent and men 20.51 percent, this is in line with the role of women such as housewives who play an important role in managing household finances. While the high level of financial literacy is distributed to men at 33.33 percent and women 21.57 percent, where most of the household heads are decision-makers in household finance.

Based on the ownership of financial products, the low level of financial literacy is concentrated in the group of products private bond, namely 50 percent and 41.43 percent in

banking financial products, namely savings, time deposits and 40 percent in savings products of non-bank financial institutions. The moderate level of financial literacy is concentrated in groups of people who have 25 percent credit cards, savings products, and bank deposits 24.29 percent and non-bank savings products 20 percent. And groups of people with high literacy levels own most of the financial products ranging from savings and deposits in banking and non-bank institutions to insurance, credit cards, and securities.

Advanced financial literacy is based on advanced knowledge of capital market product instruments. Further literacy is also seen in relation to income, education, gender and ownership of financial products. Based on the level of income, the level of financial literacy is more concentrated in the community group with low income with the number of 89 respondents, while those who have an advanced level of literacy with a high category are only 6.67 percent. This shows the continued low financial literacy. Likewise, the relationship between advanced financial literacy and the level of education is more concentrated, advanced financial literacy is low and is distributed at the level of high school education up to the second level. By gender, advanced financial literacy is low and the majority are women 98.04 percent only 1.96 percent have highly advanced financial high literacy. Equally, the relationship between advanced financial literacy and ownership of financial products also shows concentration in the low category and is widely distributed in the ownership of savings, deposits both bank and non-bank financial institutions, insurance, credit cards, and securities.

4.2 The Financial Literacy and Inclusion in Banyuwangi Regency

Based on the results of the identification of the internal financial inclusion strategy in Banyuwangi, the strength factor is still greater than the weaknesses. This condition indicates that the internal potential is very good from the condition of people's interest in saving and utilizing their income, as well as the economic potential that develops in the community. Therefore, there is a need for intensive efforts for financial institutions to increase public access to financial services as a strategy for financial inclusion policies.

While based on the results of the identification of external financial inclusion strategies in the Banyuwangi Regency, external factors have a greater opportunity than threat factors. This condition shows that the dynamics of economic growth and the dynamics of the mindset that develops in society towards high financial services and is quite capable of capturing external opportunities in dealing with all possible external threats. This condition indicates that the external potential of both the development of global dynamics and the development of information systems and technology is a strategy to overcome external threats. Therefore, there is a need for intensive efforts from banks in strengthening and increasing financial inclusion in the Banyuwangi Regency community

Table 2. Mapping Internal Factors Financial Inclusion in Banyuwangi

Internal Component Factor (IFAS)	Weight	Score	Values
Strength			
Number of socio-cultural activities	0.07	2.98	0.21
Number of people who have communication tools	0.08	3.38	0.27
The amount of community interest in saving	0.08	3.22	0.25
The amount of community interest in utilizing credit offers	0.07	3.08	0.23
Socioeconomic potential that develops in the community	0.07	3.08	0.23
Public interest in financial institutions	0.08	3.35	0.27
Development of MSME	0, 07	3.07	0.22
Total	0.53		1.68
Weaknesses			
low level of public literacy informal financial services	0.08	3.32	0.26
Still high public interest in non-formal financial services	0.08	3.30	0 , 26
High public concern in utilizing credit offers from banks with conditions that are still considered difficult	0.08	3.32	0.26
There is still a high supply of loans from non-formal financial institutions with high interest but with easy procedures	0.06	2.65	0,17
Still, there are views or culture of some people who are taboo against financial institutions 0,0	0.08	3.52	0.30
Persistently low socialization of persuasive financial services products	0.08	3.55	0.30
Total	0.475		1.55
Difference in Strength and Weakness			0.13

Source: Primary data, processed, 2019

Based on internal and external conditions, the strategic position of increasing financial inclusion in Banyuwangi Regency is in an aggressive area which indicates the need for a comprehensive and integrated strategy active, including (1) strategies to increase the capacity of information technology to the community; (2) strategies to increase the production of banking services that can be reached by the public; (3) strategies to strengthen banking institutions in an effort to increase financial inclusion; and (4) strategies to improve the quality of human resources in the face of competition with non-bank financial institutions

Table 3. Results of Mapping External Factors on Financial Inclusion in Banyuwangi Regency

External Component Factor (EFAS)	Weight	Scores	Values
Opportunities			
Development of population	0.125	3.40	0.42
Dynamics of regional and global economic growth	0.126	3.45	0.44
Development of information technology in the community	0.132	3.60	0.48
Increased mobility and socioeconomic needs of the community	0.122	3.33	0.41
Dynamics of mindset that develops in the community towards financial services	0.133	3.63	0.48
Total	0.64		2.23
Threats			
Increasing number of non-formal financial institutions that offer ease of procedure even with high interest	0.101	2.750	0.28
Low level of openness in some communities towards the function of formal financial institutions	0.126	3.433	0.43
Low levels of education and public financial literacy	0.135	3,683	0.50
Total	0.36		1.21
Difference in Opportunities and Threats			1.02

Source: Primary data, processed, 2019

5. CONCLUSION AND RECOMMENDATION

The aggregate financial inclusion of urban communities in the Banyuwangi Regency shows the characteristics of the same inclusion pattern and is quite good. This is indicated by the availability of a sufficient number of banking institutions with financial service facilities, the public's need for formal financial institution services and the intensity of community involvement in the use of formal financial institution services. However, some people still have limitations in reaching out to finance due to the low level of financial literacy and the closure of information from the public due to fears and worries with other individual financial service providers. While public access to financial credit facilities, especially business credit economic is quite high and is a potential indication in developing the real sector. Based on the results of the analysis of the level of

financial literacy, in aggregate the level of financial literacy of urban communities in Banyuwangi Regency is low 38.37 with a classification of basic financial literacy with an index value of 54.85 which is in the moderate or moderate category, while for advanced financial literacy is in the low category which is 21.89. This condition is inversely proportional to the financial dynamics with the number of financial institutions both banks and non-banks and all kinds of services and financial products that are quite rapid. Based on the SWOT analysis of the best strategies to improve financial inclusion is to increase the capacity of information technology to community and strategies to increase the production of banking services that are accessible to people

Recommendation

Based on the analysis, the policy recommendations can be made including:
1. Financial education aims to increase public knowledge and awareness about financial products and services available in the formal financial market, aspects of consumer protection and understanding risk management. The scope of this financial education includes knowledge and awareness about a variety of financial products and services, finacial risk related to financial products, customer protection, and financial management skills.
2. The map of financial information aims to increase the capacity of the communities, especially those are actually categorized as unfit be feasible from un-bankable to bankable by normal financial institution, as well as the micro-small enterprise. The Initiatives undertaken in this pillar includes the capacity building (through the provision of training and technical assistance), alternative guarantee systems (simple but still paying attention to related risks), simple credit service provision, and identification of potential customers.
3. The implementation of financial inclusion programs requires policy support from both the government and Bank Indonesia to improve access to financial services. The Initiatives to support this pillar includes policies to promote the dissemination of financial service products that are in accordance with the needs of the community, develop product schemes that are in accordance with the needs of the community, encourage changes in regulations while taking into account the principle of prudence in a proportional manner, compile regulatory mechanisms for channeling aid through banking, strengthening of the legal basis to improve the consumers protection of financial services, and also compiling studies related to financial inclusion to determine of policy direction in sustainable manner.

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