



Financial Literacy Level, *Access to Finance*, *Financial Risk Attitude* and *Financial Performance* of MSMEs. Study on DIY MSMEs

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Abstract. Micro, Small and Medium Enterprises (MSMEs) have a very important role in driving the DIY economy. The DIY MSME sector is dominated by micro and small industries and at the same time provides the largest contribution to employment, so that MSMEs are the focus for increasing the financial literacy index, especially to increase the growth rate of regional economies after the Covid-19 pandemic. The population of this research is MSMEs in the Special Region of Yogyakarta. The sampling technique uses *purposive sampling*. This research uses descriptive statistics. The research results show that the level of financial literacy in DIY is quite low because it is at an average of 60%.

Keywords : Financial Literacy, Financial Access, Financial Risk, Financial Performance

1 Introduction

The financial literacy index in the Special Region of Yogyakarta (DIY) will experience a decline in 2022 compared to 2019. These results were obtained based on the National Survey of Financial Literacy and Inclusion (SNLIK). The financial literacy index consists of knowledge, skills, beliefs, attitudes and behavior parameters. Meanwhile, the financial inclusion index uses *usage parameters*. Based on the survey results, the level of financial literacy in DIY has decreased, while the literacy level in 2019 was 58.53 percent, to 54.55 percent in 2022. "DIY's literacy rate has decreased slightly by around 3 percent, but the tolerance limit is still 5 percent. Still above the national literacy level which is 49.68 percent," said the Head of the DIY Financial Services Authority (OJK)[1]

Parjiman stated that national financial inclusion achievements were still far from expectations, so the target was to reach a minimum of 90 percent by 2024. To increase its own iteration, the DIY Regional Financial Access Acceleration Team (TPAKD) will focus on literacy with the main targets

namely women, MSMEs, communities in 3T areas (disadvantaged, frontier and outermost) as well as people with disabilities.[2]

MSMEs are the focus of financial literacy, because the COVID-19 pandemic has changed the economic landscape throughout the world, including in the Special Region of Yogyakarta (DIY). In the midst of this pandemic, Micro, Small and Medium Enterprises (MSMEs) have a very important role in driving the DIY economy. The DIY MSME sector is dominated by micro and small industries, reaching 98.4 % of total businesses, and contributing 79% to employment. However, this pandemic also brings its own challenges, with foreign products flooding the Indonesian and DIY markets.

In addition, the DIY Bank Indonesia (BI) Authority is committed to improving the performance of MSMEs through various collaboration programs with various parties, such as Grebeg MSME DIY, DIY Export Import Communication Forum, Ngayogyakarta (Siwignyo) Tourism Synergy Program, Payment Digitalization Acceleration Program, Control Coordination Program Inflation in Jogja and Surrounding Areas (KOPI JOSS), as well as Sharia Economic and Financial Development.

The MSME sector has an important role in economic development, such as wealth distribution, job creation, technological progress, poverty reduction and innovation. Therefore, the development of a strong MSME sector is very important for stable and sustainable economic growth. However, the MSME sector in DIY still needs to improve its financial literacy so that the aim of increasing its financial contribution to the economy can increase its workforce absorption capacity. One of the weaknesses of MSME financial literacy in Yogyakarta is that the financial planning aspect is not very high.[3] found that the majority of MSMEs have not kept separate financial records between personal wealth and business wealth[4]

2 Research Purposes

The aim of this research is to observe financial literacy in the DIY MSME sector and the research is expected to contribute to the literature on financial literacy and the performance and sustainability of MSMEs in several ways:

1. Describes the availability of MSME financial reports in DIY.
2. Describes a portrait of the legality of MSME businesses in DIY
3. Describes the level of financial literacy of MSMEs in DIY

2.1 Benefits of research

It is hoped that the findings from this research will provide the following benefits:

2.1.1 Empirical Contribution

This research will provide a survey of the availability of MSME financial reports in DIY

2.1.2 Managerial Recommendations

This research will provide recommendations to MSMEs in DIY on how to improve their financial literacy, financial access and financial risk attitudes. This will help them in managing their business better.

Thus, this research will provide an important contribution to our understanding of financial literacy, especially for financial planning. As an effort to improve the performance and sustainability of MSMEs in DIY.

3 Literature review

Banking is a driving force in improving the welfare of the Micro, Small and Medium Enterprises (MSME) sector. It is not surprising that the government is encouraging banking contributions through national MSME credit distribution targets and also increasing public financial literacy. Financial literacy is well documented in the financial management literature. Financial literacy is defined as the knowledge and cognitive abilities needed to manage finances and make effective decisions about financial matters [5] define financial literacy as an individual's ability to make appropriate judgments and take effective decisions regarding the use and management of money. Financial literacy is very important for entrepreneurs. MSMEs need financial literacy to evaluate business financial management and make financial decisions. Financial literacy helps businesses to face challenges in sophisticated credit markets.

Financial literacy allows entrepreneurs to manage risk through strategies, such as: 1) maintaining financial reserves, 2) diversifying their investment portfolio, 3) reducing risk, purchasing insurance. Inadequate financial literacy has been identified as a major obstacle to the sustainable development of MSMEs. Empirical studies show that the level of financial literacy among entrepreneurs is still low. identified lack of financial literacy as a common problem in MSMEs. Lack of financial literacy impacts business organizations in the start-up phase and beyond. reveal that lack of financial literacy is the main reason for the failure of MSMEs. Although the benefits of financial literacy have been empirically proven, its impact on the sustainability of MSMEs has not been studied extensively.

Financial decisions of people with high financial literacy are influenced by cognitive processes and intuition. revealed that financial literacy helps people to take advantage of increasing financial market competition by applying risk management knowledge and skills. This research also shows that financial literacy helps entrepreneurs convey their opinions to bankers during client interviews. Enabling MSMEs to face the challenges of changing business and financial markets in order to achieve sustainability[6] Financial literacy has a direct and indirect influence on corporate sustainability. Experimental research designs are widely used to investigate how individual financial literacy influences predetermined decisions, such as investment decisions and strategies Financial literacy research has been conducted in developed countries and several financial literacy

studies have been conducted in the MSME sector in developing countries[7] This research investigates the direct and indirect influence of financial literacy on the financial performance and sustainability of SMEs in DIY.

4 Research methods

4.1 Research Data and Samples

The population of this research is MSMEs in the Special Region of Yogyakarta. The sampling technique uses *purposive sampling*, with the following criteria: a) in accordance with MSME regulations, especially capital, b) c) the company or type of business is registered with the DIY Ministry of Industry and Trade.

A structured questionnaire was used to collect data. The questionnaire survey allows data collection from a representative sample distributed across many industries and geographic regions, which is useful because MSMEs are geographically dispersed throughout DIY. The questionnaire was based on questions used in previous research conducted.

4.2 Research Model

The research was designed using a qualitative approach, namely using descriptive statistics to describe and explain the results of respondent data.

4.3 Identification and Operational Definition of Research Variables

Identification and operational definitions are used to clarify and sharpen the research focus in order to obtain the right results. Identification and operational definitions describe research variables, namely dependent variables and independent variables. Questionnaire using a 5 Likert scale.

Financial literacy uses questions about inflation, exchange rates, interest rates and future values to measure financial literacy. This study uses items from the measurement scale developed by [8] to measure the financial literacy of a sample of MSMEs in DIY.

Access to finance was measured using the approach used Ten items were used to measure financial access. Financial risk attitudes use psychometric instruments developed Used to measure financial risk attitudes. Two aspects of financial risk attitudes, namely risk perception and propensity to take risks, are both assessed using six items. This instrument has been tested extensively in Western countries.

Financial performance is used as a proxy for business performance. Using a measurement scale developed by Control variables: To get better results, we use the company's age, size, and industry type as control variables. Age and size of MSMEs are directly assessed in the model while industry sector is analyzed as a categorical variable (manufacturing; trade; services).

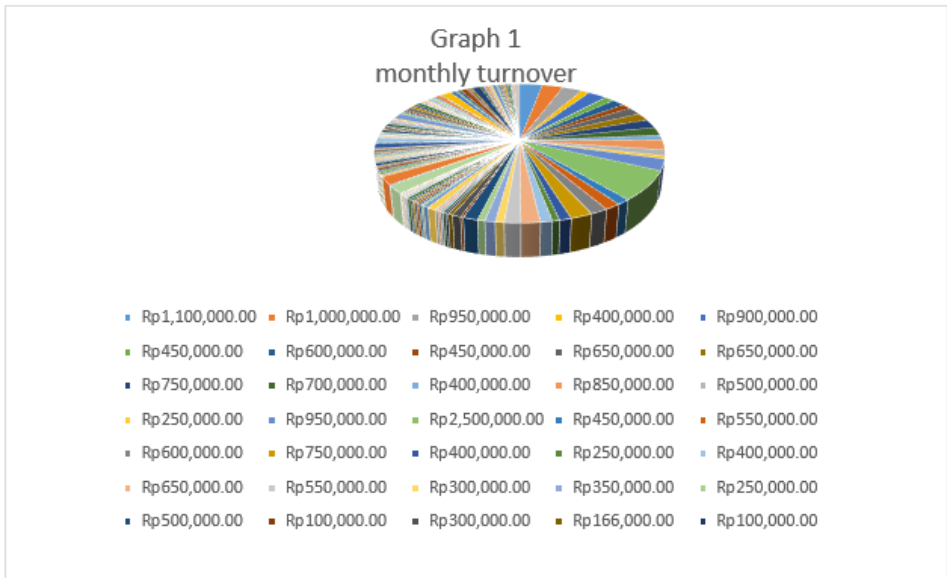
5 Descriptive Data Analysis Method

According to Ghozali, 2018 descriptive statistics provide an overview or description of data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, cutosis, and skewness (divergence of distribution). This is done by taking data based on the answers obtained from respondents

6 Research result

6.1 Sales turnover

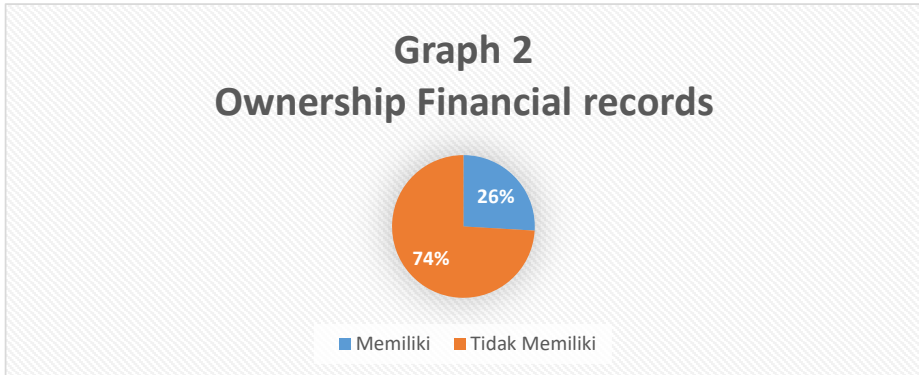
From the data from the questionnaire regarding sales turnover, the results are as follows:



From the graph above, it can be seen that the highest sales turnover of respondents is IDR. 100,000

6.2 Financial Records

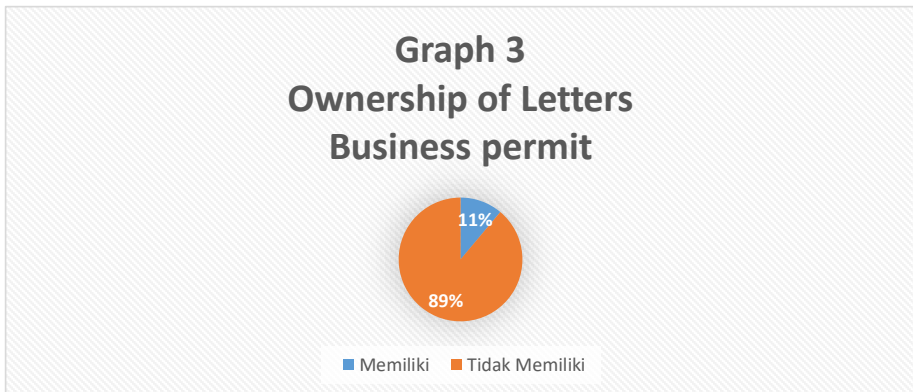
From the data from the questionnaire regarding whether or not you have financial records, the results are as follows:



74% of those who do not have financial records mean that the majority of MSME respondents in this study do not have financial records.

Ownership of a business license

From the questionnaire results data regarding whether or not you have a business license, the results are as follows:



74% of those who do not have financial records mean that the majority of MSME respondents in this study do not have financial records

Descriptive statistics

The statistical results of the variables financial literacy, financial access, financial risk attitude and financial performance are as follows

Table 1. Descriptive statistical results

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------|-----|---------|---------|-------|----------------|
| Financial Literacy | 274 | -1.75 | 2.00 | .5297 | .59095 |
| Access of Finance | 274 | -1.80 | 2.00 | .6869 | .69812 |
| Financial Risk Attitude | 274 | -1.67 | 2.00 | .6265 | .59541 |
| Financial Performance | 274 | -1.40 | 2.00 | .7489 | .65657 |
| Valid N (listwise) | 274 | | | | |

Table 1 shows that: the average financial literacy score is 0.5297 , meaning that the financial literacy level of research respondents is quite low, namely below 60%. The average financial access score is 0.6869 , meaning that the level of financial access of respondents is at a medium level because it is around 70%. The average financial risk attitude score is 0.265, meaning that the level of access to financial risk attitude is in the medium category because it is around 60%..%. The average financial risk attitude score is 0.7489, meaning that the level of financial performance is in the medium category because it is around 70% .

7 Discussion

This research supports research results from the OJK, namely that financial literacy has indeed increased but not as expected. The average level of financial performance is still 70%, meaning it is still at the middle level. There are still many MSMEs that have not made financial reports or financial records, meaning that MSMEs cannot make good financial plans for the future. A financial literacy index that is higher than the financial literacy index also shows that MSMEs use financial services without being equipped with sufficient knowledge.

8 Conclusion

Low financial literacy results in a financial attitude that is not high, and the correctness of risk taking is also not high, which has an impact on the low financial performance of MSMEs in DIY.

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