

The Significance of Financial Literacy for MSMEs

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Abstract

The purpose of this study is to emphasize the significance of financial literacy for MSMEs. This research utilizes a descriptive method with a qualitative approach. The primary and secondary data sources, along with data collection techniques such as observation, interviews, and documentation, are employed in this study. The instruments used in the research methodology include the researchers themselves, interview guidelines, and field notes. Financial literacy significantly impacts the sustainability and prosperity of micro, small, and medium enterprises (MSMEs). A thorough comprehension of financial principles enables MSME entrepreneurs to efficiently manage their resources, make informed decisions, and strategize for long-term growth. Financial literacy encompasses not only budget management and cash flow but also the capacity to plan investments, mitigate risks, and astutely seize economic opportunities. Proficiency in these skills empowers MSMEs to adapt to market dynamics, overcome challenges, and thereby support the sustainable expansion of their businesses in the long run.

Keywords: Financial Literacy, MSMEs

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a sector that plays a critical role in producing various products and services and serves as a solution to overcome the problem of unemployment. This sector is essential in providing livelihoods to a substantial portion of the population, especially in developing and rural areas where formal employment opportunities may be limited. With its great potential, MSMEs are not only the main driver of economic activities in society but also a mainstay for many people in improving their welfare (Widiastuti, 2015).

The economy in Central Java is closely tied to the activities of MSMEs. The development of MSMEs in Central Java Province is approximately 4.2 million units, consisting of micro-enterprises 3,776,843 (90.48%), small enterprises 354,884 (8.50%), medium enterprises 39,125 (0.94%), and large enterprises 3,358 (0.08%). Since 2021, the contribution of cooperatives and MSMEs to the Gross Regional Domestic Product (GRDP) of Central Java Province has continued to increase. Data shows a contribution of 12.45% in 2021, 12.46% in 2022, and 14.89% in 2023. These data demonstrate that MSMEs can enhance the income of the community and drive economic growth.

Often, MSME actors perceive their businesses as running normally, smoothly, and without problems, whereas, in reality, their revenue, profit, and assets do not show any growth or progress. A lack of understanding of financial literacy often becomes one of the main obstacles hindering the development and success of businesses. The success of an enterprise is often considered synonymous with the sustainability of the business itself. Therefore, financial literacy is an essential factor that MSME actors should possess to facilitate the management and development of their enterprises (Ardila, 2020).

According to a survey conducted by the Financial Services Authority (OJK) in 2023, the financial literacy level of MSME actors in Indonesia reached 69.7 points on a scale of 0-100. Meanwhile, data from Bank Indonesia shows that the number of MSMEs in 2023 reached 66 million. It indicates that many MSMEs still have limited financial literacy, meaning that the utilization of financial products and services from the banking sector remains low and restricted. Financial literacy includes knowledge, skills, and beliefs that influence attitudes and behaviors in improving decision-making quality and financial management to achieve well-being.

MSME actors who understand financial literacy have the potential to be more productive, thus creating more competitive MSMEs in managing and developing their businesses. Many countries prioritize financial literacy as a combination of awareness, knowledge, skills, attitudes, and healthy financial behavior. MSME entrepreneurs with good financial literacy will have better control over their financial conditions and understand how to manage income and expenses effectively. It not only ensures the

sustainability of their business but also contributes to their long-term livelihood. With a high level of financial literacy, MSME actors can manage their business finances more effectively, make accurate financial decisions, and maintain positive business performance, ultimately enhancing their long-term well-being (Affandi, 2018).

Financial literacy includes knowledge, skills, and beliefs that influence a person's attitude and behavior in decision-making and financial management to achieve prosperity. Research has shown that the higher a person's financial knowledge, the wiser they are in managing their finances. With a good level of financial literacy, MSMEs will be more skilled in managing their finances, able to choose and utilize financial products and services effectively and prepare mature financial plans. It allows them to make better decisions related to their business.

MSMEs must have a strong grasp of financial literacy to effectively utilize a wide range of financial products and services. It includes depositing funds in banks, applying for loans or credit, making investments, and managing their business finances. With a good understanding of financial literacy, MSME entrepreneurs can become more proficient in managing their business funding sources, devising budget plans, and preparing financial reports accurately (Humaira, 2018). With a good understanding of financial literacy, MSMEs will find it easier to develop their businesses. They can apply for loans or credit from banks, provided they have appropriate financial reports. Although financial literacy is crucial, many MSME actors still have low levels of literacy regarding their understanding and knowledge of financial products and services. Therefore, this study aims to identify the importance of financial literacy for MSME actors.

2. METHOD

This research method uses a descriptive method with a qualitative approach. The data sources used are primary data and secondary data. Data collection techniques with observation, interviews, and documentation. The research method instruments used are the researchers themselves, interview guidelines, and field notes. The data analysis method used is the Interactive Model Analysis (Miles, Huberman, & Saldana, 2014), namely by collecting data, reducing data, presenting data, and drawing conclusions.

3. RESULTS AND DISCUSSION

Correlation of Financial Literacy with MSMEs

Financial literacy is closely related to the regulations issued by the Financial Services Authority (OJK), especially OJK Regulation Number 76/POJK.07/2016 concerning the Improvement of Financial Literacy and Inclusion in the Financial Services Sector for Consumers and the Community. This regulation establishes a framework that supports the development of financial literacy in Indonesia, with the main objective of improving the quality of financial decision-making and financial management of individuals and the community. Strong financial literacy contributes directly to the achievement of the goals set by OJK regulations, which in turn impacts the management and sustainability of MSMEs (Aribawa, 2016).

According to OJK Regulation, financial literacy involves knowledge, skills, and beliefs that influence attitudes and behaviors in financial management. This includes an understanding of financial concepts and risks, as well as the ability to apply this knowledge in making effective decisions. With good financial literacy, MSME entrepreneurs can design better business strategies, manage financial risks, and utilize financial products and services that suit their needs. OJK Regulation encourages increased financial literacy as a step to ensure that consumers and business actors have adequate capacity in managing their finances, to improve welfare and business sustainability.

OJK Regulation sets out the objectives of financial literacy, namely improving the quality of individual financial decision-making and encouraging changes in attitudes and behaviors that are better in financial management. For MSMEs, this means that entrepreneurs who have adequate financial knowledge will be better able to make strategic decisions that support the growth and sustainability of their businesses. For example, financial literacy allows entrepreneurs to plan budgets carefully, manage debts and receivables, and choose appropriate financial products to support their business needs. By adopting these practices, MSMEs can improve operational efficiency, optimize resource use, and strengthen their position in the market (Idawati, 2020).

OJK regulations also focus on financial inclusion, which is closely related to financial literacy. Financial inclusion means ensuring that all levels of society, including MSMEs, have adequate access to financial services and products. Good financial literacy supports financial inclusion by helping entrepreneurs understand available financial products, such as loans, insurance, and investments, and how best to use them. With a good understanding of financial services, MSMEs can take advantage of these products to support their growth, such as obtaining capital for expansion or protecting their business through insurance.

In the context of MSMEs, financial literacy also plays an important role in increasing their capacity to participate in the formal financial system. OJK regulations emphasize the importance of financial knowledge to ensure that entrepreneurs can make wise decisions related to access to financing and risk management. MSME entrepreneurs who understand financial principles can negotiate with financial institutions, obtain loans with better terms, and manage their financial obligations more effectively. It is in line with the objectives of OJK regulations to increase financial inclusion and ensure that MSMEs can operate with adequate financial support (Aribawa, 2016).

The Influence of Financial Literacy on MSME Performance

Financial literacy is a crucial element that influences business performance, especially for micro, small, and medium enterprises (MSMEs). Based on Financial Services Authority Regulation Number 76/POJK.07/2016, financial literacy includes knowledge, skills, and beliefs that influence attitudes and behavior in financial management. Good financial literacy enables individuals or business actors to make better financial decisions, manage resources more efficiently, and achieve financial well-being. This concept involves an in-depth understanding of various aspects of finance, such as cash flow management, budget planning, and selecting appropriate financial products and services (Khrisna, 2020).

The importance of financial literacy in the context of MSMEs cannot be underestimated. MSMEs often operate in challenging environments, such as limited access to capital, limited market information, and uneven managerial capabilities. In this case, financial literacy serves as an important tool to overcome these obstacles. For

example, MSME owners who understand the concept of budget planning will be better able to manage cash flow and make wiser decisions about spending and investment. With these skills, they can minimize financial risks, improve operational efficiency, and maximize profit potential.

Furthermore, good financial literacy also contributes to improving the performance and sustainability of MSMEs. According to Rahayu, financial literacy has a positive impact on the performance and sustainability of small and medium enterprises. Good knowledge of financial aspects allows MSME actors to develop more solid and adaptive business strategies. They can better plan and manage debt, optimize capital use, and evaluate and select investment opportunities more carefully. It leads to improved financial performance and business competitiveness in an increasingly competitive market (Rahayu, 2017).

In practice, financial literacy also affects attitudes and behaviors in financial management. Entrepreneurs skilled in financial literacy tend to have a more proactive attitude in managing their finances. They more often utilize appropriate financial services, such as savings accounts, insurance, and business loans, in a way that is profitable and by their financial capacity. In addition, they are also better prepared to face financial crises and market shifts with more planned and measurable strategies.

Furthermore, financial literacy encourages innovation and collaboration in the MSME ecosystem. With a better understanding of financial aspects, MSME actors can more easily build strategic partnerships and utilize networks to obtain the necessary resources and information. They can work with financial institutions, business consultants, and other partners to overcome limitations and create new opportunities. This kind of collaboration not only increases the internal capacity of MSMEs but also expands market reach and growth potential (Yushita, 2017).

Overall, financial literacy serves as a strong foundation for the performance and sustainability of MSMEs. By enhancing financial understanding and skills, MSME actors can better manage challenges, seize opportunities, and make improved decisions for the future of their businesses. Therefore, financial literacy enhancement programs should be

a priority in MSME development policies to ensure that they can operate effectively and sustainably in the long term.

The Influence of Financial Literacy on the Sustainability of MSMEs

Financial literacy is a crucial factor that influences business sustainability, especially in the context of micro, small, and medium enterprises (MSMEs). Research conducted by Puspaningtyas and Aribawa shows that good financial literacy can provide significant benefits for the sustainability of MSMEs, especially in managing business performance and long-term growth. Financial literacy includes in-depth knowledge of financial management, the ability to plan and manage a budget, and skills in making effective financial decisions. With this understanding, entrepreneurs can better organize their work plans, improve fixed cost management, and anticipate changes in production demand (Tsalitsa, 2016).

One important aspect of financial literacy is its ability to increase sales growth and fixed-cost efficiency. Entrepreneurs who have good financial knowledge can manage their cash flow and budget more effectively, which directly contributes to increased sales. For example, they can plan more efficient marketing strategies and determine competitive product prices. In addition, financial literacy allows entrepreneurs to monitor and control fixed costs, such as rent and salaries. This effective cost control helps businesses maintain profitability, even in unstable economic conditions and supports sustainable growth (Ratna, 2017).

The influence of financial literacy on the sustainability of MSMEs can be seen from three main dimensions: financial growth, strategic, and structural. In terms of financial growth, financial literacy allows entrepreneurs to better manage changes in assets, capital, and turnover. Entrepreneurs who are skilled in financial literacy can monitor the development of their business assets, manage capital wisely, and increase turnover sustainably. This ability helps businesses to strengthen their financial position, make strategic reinvestments, and mitigate financial risks.

The strategic dimension of financial literacy includes changes in production costs and violation rates. Entrepreneurs with good financial literacy can plan and manage

production costs more efficiently, identify areas where costs can be reduced, and ensure that the production process runs smoothly. In addition, they are also better able to avoid violations of laws and regulations that can incur additional costs or legal problems. It improves operational efficiency reduces risk, and ensures compliance with industry standards (Setiawan, 2018).

In terms of structural dimensions, financial literacy affects changes in the number of employees and business locations. With a sound financial strategy, MSMEs can plan for expansion and structural growth more effectively. For example, increased financial capacity may enable a business to recruit more employees, open new branches, or expand production facilities. These changes demonstrate that financial literacy not only supports operational management but also long-term growth planning. The ability to carefully plan for expansion and structural changes allows MSMEs to adapt to market demands and enhance their competitiveness.

Overall, financial literacy plays an integral role in ensuring the sustainability of MSMEs. With adequate knowledge and skills in managing finances, entrepreneurs can make better decisions, manage risks more effectively, and plan for sustainable growth. Financial literacy provides a solid foundation for successful business management, and thus, enhancing financial literacy among MSMEs should be a priority in efforts to support long-term business sustainability and success (Butar, 2021).

4. CONCLUSION

Financial literacy is crucial for the sustainability and success of micro, small, and medium enterprises (MSMEs). A deep understanding of financial principles enables MSME entrepreneurs to manage their resources efficiently, make better decisions, and plan for sustainable growth. Financial literacy encompasses not only budgeting and cash flow management but also the ability to plan investments, manage risks, and wisely utilize financial opportunities. Mastering these skills allows MSMEs to adapt to market dynamics and address challenges, supporting the long-term continuity and expansion of their businesses.

The Financial Services Authority (OJK) Regulation Number 76/POJK.07/2016 underscores the importance of enhancing financial literacy to strengthen financial management for individuals and businesses. By following the principles outlined in this regulation, MSMEs can ensure they can make informed financial decisions, manage debts and receivables, and utilize appropriate financial products. This not only enhances operational efficiency but also helps build a solid financial foundation necessary to face economic uncertainties and ensure long-term success.

In conclusion, financial literacy is an essential component in creating a stable and sustainable business environment for MSMEs. Investment in financial education and training not only enhances financial management skills but also strengthens the position of MSMEs in the market. With adequate knowledge, MSMEs can better manage challenges, capitalize on opportunities more effectively, and achieve sustainable growth. Therefore, efforts to improve financial literacy among MSMEs should be a priority in supporting the future success and sustainability of businesses.

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