FINANCIAL EDUCATION AND FINANCIAL LITERACY ON MICRO ENTREPRENEUR GROWTH IN INDONESIA

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Abstract

Micro, Small, and Medium Entreprises (MSMEs) in Indonesia play an important role in Indonesia's economic growth. The contribution of MSMEs to GDP also reaches 60.5%, and to employment is 96.9% of the total national employment absorption. Therefore, special attention to promoting their financial literacy is needed. It is believed that financial knowledge can make the quality of financial business decisions

Key words: *financial education, financial literacy, micro entrepreneurs*

INTRODUCTION

According to Coordinating Ministry for Economic Affairs, Republic Indonesia in their pers release on October 2022, Micro, Small, and Medium Entreprises (MSMEs) in Indonesia play an important role in Indonesia's economic growth, with their number reaching 99% of all business units. The contribution of MSMEs to GDP also reaches 60.5%, and to employment is 96.9% of the total national employment absorption. Based on this data, it is important to pay special attention to MSMEs entrepreneurs. There are many programs have been launched by the government to improve the ability of a business. One of the programs implemented is financial education related to micro business financial management. The implementation of this education involves the government, universities, and NGOs. Through these courses, it is hoped can increase the financial literacy skill of the business actors. it is believed that increasing financial literacy will be able to improve business performance, and hence can boost the economy of Indonesia.

In Indonesia, MSMEs are a part of Small-and-Medium Enterprises (SMEs). They both have important roles in the economic growth of Indonesia. One incentive behind the development of SMEs' volume is high entrepreneurship motivation. One determinant of SMEs' success is entrepreneurial characteristics. Several studies have shown that entrepreneurship characteristic has a positive effect on SMEs' performance (Abdulwahab & Al-Damen, 2015; Abood et al., 2014; Isaga, 2017; Mothibi, 2015).

In general, entrepreneurship is a manifestation of personal or psychological traits consisting of attitudes and interests (Sari et al., 2016). Entrepreneurship is diverse and different. Thus, the diversity of entrepreneurial characteristics can be categorized into three aspects, the personal aspect, the entrepreneurial aspect (related to innovation), and the administrative/organizational aspect (Abood et al., 2014). On the other hand, SMEs have weaknesses that can be a factor in business failure. These factors include poor financial literacy, poor banking access, poor financial management, and inadequate investment strategies (Arasti et al., 2014). Most SME entrepreneurs find themselves lacking in financial literacy as they do not use advanced financial analytical tools to run their businesses (Plakalović, 2015). An empirical study by (Lusardi & Mitchelli, 2007) showed that not only is financial literacy low in developing and developed countries, but very few people understand basic financial concepts. Understanding financial literacy is certainly important for small business entrepreneurs determined to grow their businesses.

Financial literacy is the discipline of personal finance facts and is key to personal financial management (Garman & Forgue, 2014). An entrepreneur's understanding and knowledge of finance (or financial literacy) can be estimated using indicators. (Dahmen & Rodríguez, 2014) each assessed the financial literacy of SME entrepreneurs using four indicators: (i) preparation of monthly financial statements (income statement and balance sheet); (ii) review of monthly financial statements; (iii) financial analysis of monthly closing; (iv) understand gross margin and its contribution to total profit; These indicators are ordered on seven-point Likert scale, ranging from "strongly agree" to "strongly disagree." (Chen & Volpe, 1998) also assess levels of financial literacy using four indicators, including basic knowledge of finance, credit, savings and investments, and risk.

(Aribawa, 2016) uses several indicators to estimate levels of financial literacy, including:
1) Open a bank account in the name of the company. 2) company identification when opening an account; 3) minimum deposit amount when opening an account; 4) knowledge of savings insurance. 5) Agreement on the potential return of savings for one year. 6) Agreement on the potential return of savings over several years. 7) Agreement on Annual Loan Interest. 8) Knowledge of two optional product bonuses. 9) Knowledge of the effects of inflation on currencies. 10) Knowledge of the value of money over time. 11) Insights into the impact of inflation on business growth. Small business performance of small and medium enterprises (SMEs) is considered successful when they perform well. Performance is influenced by many factors, both good and bad. Success is highly dependent on how entrepreneurs think about how they should plan their business strategy (Singh et al., 2013). Entrepreneurs' behavior can have a significant impact on firm performance (Davis et al., 2013). Entrepreneurs will always play a key role in the success and sustainability of a company. The performance of SMEs can be measured by indicators. (Adomako et al., 2014) used the following metrics, Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q Market Value, which measures the performance of small businesses. (Aribawa, 2016) used several indicators to measure SME performance, including work done according to plan and schedule. Mistakes at work are all too common and cause repetition. Sales are growing. Fixed costs are reduced. Increased expectations for needs-based production. It also ensures on-time delivery to customers and compatibility of products and specifications. (Sari et al., 2016) defined SMEs' performance using key revenue and sales figures.

LITERATURE REVIEW

1. Financial Education and Financial Literacy

The lack of a standard definition of financial literacy is one of the difficulties with financial education (Fox & Bartholomae, 1999; J. S. Hastings et al., 2013; Huston, 2010; McCormick, 2009; Remund, 2010). Many studies use the terms financial literacy, knowledge, and education interchangeably (Huston, 2010).

Financial literacy is gaining popularity as more and more people realize that financial literacy is necessary for all ages. Financial literacy should start at a young age. This is because early financial mistakes can have lasting consequences (Wagner, 2015)

The goal of financial education may be to increase knowledge, but ultimately financial education courses should encourage better financial behavior. A study by (Bernheim et al., 2001) was one of the first to assess the long-term impact of financial literacy. Using a natural experiment, the author asked people between the ages of his 30 and 49 about their finance courses in high school and their current savings rates. A study (Allgood & Walstad, 2013) used the 2009 NFCS to assess how perceived and actual financial literacy influence different credit card behaviors in different age groups. increase. Behaviors investigated include paying off a credit card in full, transferring a credit card balance, paying only the minimum amount on a credit card, paying late fees, and paying over credit card charges.

2. Financial Literacy

According to the Financial Services Authority (2013), literacy is defined as the ability to understand. In the context of finance, financial literacy is the ability to manage one's finances in a way that allows one to develop in the future and live more prosperously. (Engel et al., 2020; Kebede & Kuar, 2015) also showed that financial literacy is a component of human capital in doing financial activities to increase life satisfaction through what we consume.

Financial literacy is a key component in shaping financial well-being. Good financial knowledge allows us to make effective financial decisions, resulting in better use of funds and investment decisions (Lusardi & Mitchelli, 2007).

The role of financial literacy will become more important over time as technological developments change people's lifestyles, including financial management, making financial literacy more complex and requiring specific skills to manage it. (Engel et al., 2020; Panos & Wilson, 2020). According to (Huston, 2010; Ionescu et al., 2020) financial literacy exists when individuals possess a set of skills and abilities that enable them to use existing resources to achieve their goals. Meanwhile, the Presidential Advisory Committee on Financial Literacy (2008) outlined measurement levels for financial literacy, including financial literacy, financial competence, perceived knowledge, and financial behavior. (J. Hastings & Mitchell, 2020) that one of the most important things in financial management is patience. Perseverance is the difference between those who understand financial literacy and those who do not. Financially literate people are more likely to think long-term than short-term when managing their finances.

3. Financial Knowledge

Financial literacy is closely related to financial knowledge or financial education. Financial literacy can be guided and well understood through financial literacy. Several studies have shown that low financial literacy is a result of a lack of financial knowledge (Cai, 2020; Chen & Volpe, 2002; Hüsser, 2015).

Some literature finds a positive relationship between financial knowledge and financial behavior. Higher financial literacy is consistent with more proactive and responsible financial decisions (Grable et al., 2020; Lind et al., 2020). Financial knowledge is important, not just for personal gain. Financial knowledge not only helps you use finances wisely, it also benefits the economy. Financial knowledge has the power to change the world. A lack of knowledge of financial management principles and financial issues can disrupt a person's or family's financial situation.

Financial literacy requires the following financial skills, those are, records of deposits and withdrawals. Entrepreneurs with sufficient financial literacy lead to having better financial expertise. Financial expertise is a technique for making financial management decisions. Financial literacy refers to existing knowledge, specifically related to financial concepts and financial instruments (Cai, 2020; Hüsser, 2015). Financial literacy can be identified from two perspectives: objective financial literacy and subjective financial literacy. Objective financial literacy by asking knowledge-based questions and subjective financial literacy by asking people to rate their financial literacy (Mountain et al., 2021).

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