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“Entrepreneurship on Global Economics Development in the Era of Society 5.0”

Financial Literacy and Digital Financial Behavior of SMEs in Indonesia**Ramadhan Harahap^{1*}**¹Universitas Pembangunan Panca Budi

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***E-mail :** ramadhan.rahman41@dosen.pancabudi.ac.id**ABSTRACT**

The purpose of this research is to observe and analyze Financial Literacy and Digital Finance in Indonesia. This study uses a descriptive approach. The results of this study show that the use of Digital Finance in Indonesia is quite good, but there are still many things that must be addressed together. The digitalization of Cooperatives and SMEs is in line with the challenges of the Industrial Revolution 4.0 which requires all economic activities to shift from conventional to modern. The Covid-19 pandemic has also accelerated this shift, in which business and economic activities that were originally offline have turned online. This makes the use of digital technology more massive. The use of demand deposits that are commonly used in society today is considered to be less efficient. The presence of digital financial services is also an important supporting sector. More and more SMEs have started to adopt payment methods using e-wallets or application-based electronic money. In addition, MSMEs have also used digital solutions to interact with their customers, with 69% of sellers planning to increase their use of digital marketing solutions in the next 5 years.

Keywords: Financial Literacy, Digital Finance and SMEs.

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INTRODUCTION

The government has set a financial inclusion target of 75% to be achieved by 2019.

To achieve this target, the government launched various programs, including the Digital Financial Services (LKD) and Laku Pandai programs. To increase the financial inclusion rate, in 2014, Bank Indonesia and the Financial Services Authority (OJK) launched two programs related to branchless banking services, namely LKD and branchless banking called Laku Pandai. LKD is a limited payment and/or financial system service activity conducted not through a physical office, but by using technological means, including mobile based and web based and third party services (agents), with the target of community services that do not have and have limited access to financial services. Meanwhile, Laku Pandai, which is abbreviated from Office-less Financial Services in the Framework of Inclusive Finance, is an OJK program for providing banking services or other financial services through cooperation with other parties (bank agents), and supported by the use of information technology facilities.

Since the launch of LKD through Bank Indonesia Regulation (PBI) No.

11/12/PBI/2009 dated April 13, 2009 on Electronic Money, the circulation of electronic money multiplied more than 29 times from approximately 3 million electronic money cards in 2009 to 90 million cards in 2017, or equivalent to an increase of 60% per year. Meanwhile, OJK launched the Laku Pandai program in 2014 through Financial Services Authority Regulation No. 19/POJK.03/2014 on Office-Based Financial Services in the Framework of Financial Inclusion. Laku Pandai Users. One of the factors driving the increased use of LKD and Laku Pandai is the presence of agents. The number of Laku Pandai agents increased from 37 per 100,000 adult population in 2015 to 107 per 100,000 adult population in 2017, or an increase of 189.2%. Meanwhile, the number of Laku Pandai agents increased 22 times between September 2015 and September 2017, from 19,400 agents to 428,000 agents, an increase of more than eleven times between September 2015 and September 2017.

There are different definitions of financial inclusion. Financial inclusion can be defined as the use of financial services (World Bank, 2009). Meanwhile, the definition according to the Global Financial Index focuses more on the ownership and use of financial accounts at formal financial institutions (Demirguc-Kunt and Klapper, 2013). Specifically, financial inclusion is defined as financial account ownership and active use of financial services at any given time.

Most studies on financial inclusion do not focus on a single country, and are cross-country studies (Demirguc-Kunt et al., 2013; Zins and Weill, 2016; Akudugu, 2013). Therefore, most of these studies only consider social, economic, and demographic factors as determinants of financial inclusion. Even if they include other explanatory variables such as cost and quality of service, these variables are aggregated at the national level and are the same for all individuals in the country (Allen et al., 2016). China and Marr et al. (2014) in Peru have also not included cost and service quality as factors that influence financial inclusion. Yet according to research conducted by Allen et al. (2016), poor service quality, such as weak security and high costs of using services including transportation costs, can lead to a decrease in financial inclusion.

Research by Allen et al. (2016) has included perceived cost as a factor affecting access to finance. However, in that study, cost was measured by the perception of each country's

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central bank which is the same for each individual in the country. Therefore, the variation in costs faced at the individual level is not visible even though the sample used is at the individual level. Similarly, in Cole's (2009) research, service quality has not been measured at the individual level. In contrast to these previous studies, the survey data obtained for this study allows the authors to analyze the factors that influence financial inclusion, including quality and cost factors at the individual level, which has not been done before.

LITERATURE REVIEW**Financial Literacy**

Financial literacy is important for every individual in society to improve the welfare of society. OJK defines financial literacy as a series of processes or activities to increase the knowledge, confidence and skills of consumers and the wider community so that they are able to manage money properly.

Chen and Volpe (1998) define financial literacy as the knowledge to manage finances in making financial decisions. Lusardi and Mitchell (2007) define financial literacy as financial knowledge and the ability to apply it. According to Kiyosaki (2008), financial intelligence or financial literacy is part of a person's mental intelligence that deals with how to find solutions to financial problems. In personal financial planning, individuals are required to be smart in managing finances so that knowledge of finance is needed by each individual.

Jappelli (2007) explains that financial literacy is increasingly important for household decisions on how to invest wealth and how much to borrow in financial markets. On the asset side, financial literacy is important because financial products have become very complex. Even for simple products, such as savings and insurance, there are usually several options and several different contracts, which makes choices more difficult.

Some definitions of financial literacy can be concluded that financial literacy is the ability or understanding of a person in allocating their financial resources for the purpose of future financial freedom. This financial literacy is important for every individual where a good financial understanding will help overcome financial difficulties.

The Financial Services Authority divides the level of financial literacy of the Indonesian population, namely:

1. Well literate (21.84%), i.e. having knowledge and confidence about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, and having skills in using financial products and services.
2. Sufficiently literate (75.69 %), have knowledge and confidence about financial services institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services.
3. Less literate (2.06%), only have knowledge about financial services institutions, financial products and services.
4. Not literate (0.41%), do not have knowledge and confidence in financial services institutions and financial products and services, and do not have the skills to use financial products and services.

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Financial Literacy Factors**Financial knowledge**

Someone who has good financial literacy will have some basic knowledge of key financial concepts. This knowledge can be seen from the understanding of financial products such as savings, deposits, insurance, bonds and so on.

According to banking law No. 10 of 1998, savings are public deposits (customers) whose withdrawals can be made by the saver at any time when desired and according to certain conditions set by the organizing bank. Along with the development of financial dynamics, savings become a financial facility that has great benefits for each individual. Savings are not only a place of storage, but have many advantages such as payment facilities for various transactions ranging from formal and non-formal transactions. Banks are also competing to provide more efficient facilities such as the implementation of Branchless Banking services, which are limited payment and banking system service activities that are not carried out through physical bank offices, but with the services of Bank Agents and technological facilities. With this service and the presence of Bank Agents, customers have the convenience of making the following transactions:

- Open an account
- Make cash deposits to the account
- Make cash withdrawals from the account
- And other transactions

Financial behavior

Everyone's behavior in implementing financial literacy is different according to their goals. This is demonstrated by the cra where a person's behavior will have a significant impact on their financial well-being. It is therefore important to capture behavioral evidence in financial literacy measures. To find out about behaviors such as thinking before making purchases, paying bills on time and budgeting, saving and borrowing to meet needs. Behavior is the way in which one acts or one's own behavior. When planning personal finance individuals will consider the suitability to their needs of various banking products (current accounts, savings, credit cards and consumer credit) or investments (stock market, bonds, mutual funds), insurance products (life insurance, health insurance) and retirement planning (Wikipedia 2016). Behavior is a real action or activity that is carried out. In the theory of planned behavior, it is explained that a behavior is carried out because individuals have the intention or desire to do so (behavior intention) and are supported by perceived behavioral control (Jogiyanto, 2008).

Heck (1999) examined that there are 9 financial literacy behaviors, namely: (1) setting financial goals; (2) estimating costs accurately; (3) estimating income appropriately; (4) planning and budgeting one's spending; (5) considering several alternatives when making financial decisions; (6) adjusting to meet financial emergencies; (7) meeting deadlines or bills on time; (8) successfully meeting financial goals; and (9) successfully implementing spending plans.

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Attitudes

Attitudes and preferences are considered important elements of financial literacy. If people have a rather negative attitude towards saving for their future, for example, it is argued that they will be less inclined to engage in such behavior. Similarly, if they prefer to prioritize short-term wants then they are unlikely to provide themselves with emergency savings or to make long-term financial plans. Attitude is defined as a feeling of support or favor or a feeling of support or disfavor towards an object to be addressed. This feeling arises from an individual's evaluation of the belief in the results obtained from this particular behavior (Hidayat & Nugroho, 2010).

The financial literacy survey includes three attitude statements to measure respondents' attitudes towards money and planning. The attitude questions ask people whether they agree or disagree with certain statements, to capture their dispositions or preferences.

Digital Finance

Fintech is a new financial industry that applies technology to improve financial activities (Schueffel et al, 2017). In addition, according to Leong and Sung (2018), fintech can also be considered as "any innovative idea that improves financial service processes by proposing technological solutions according to different business situations. The advancement of e-finance and mobile technology for financial companies, which drives fintech innovation, emerged after the global financial crisis in 2008. This development is characterized by the integration in innovation of e-finance, internet technology, social networking services, social media, artificial intelligence, and big data analytics (Lee and Seen, 2018).

METHOD

The method used in this research is descriptive qualitative research method. Qualitative descriptive research is research that describes or paints the object of research based on the facts that appear or as they are. This research interprets and describes data related to the current situation, attitudes and views that occur in a society, conflicts between two or more conditions, relationships between variables that arise, differences between existing facts and their influence on a condition.

RESULT AND DISCUSSION

Digital Finance/FinTech is the result of a combination of financial services and technology which has finally changed the business model from conventional to moderate, which originally had to pay face to face and carry a certain amount of cash, can now make remote transactions by making payments that can be made in a matter of seconds. just seconds [8]. FinTech emerges in line with changes in people's lifestyles, which are currently dominated by information technology users who demand fast-paced lives. With FinTech, problems in buying and selling transactions and payments such as not having time to look for goods at shopping malls, going to banks/ATMs to transfer funds, reluctance to visit places because of unpleasant services can be minimized. In other words, FinTech helps buying and selling transactions and payment systems to be more efficient and economical but still effective. For consumers, FinTech provides benefits: Get better service, more

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choices, lower prices. For FinTech players (product or service traders), FinTech provides benefits: Simplifies the transaction chain, reduces operational costs and capital costs, freezes the flow of information. For a Country, FinTech provides benefits; encouraging the transmission of economic policies, increasing the speed of circulation of money so as to improve the people's economy, contributing to the National Strategy for Financial Inclusion/SKNI.

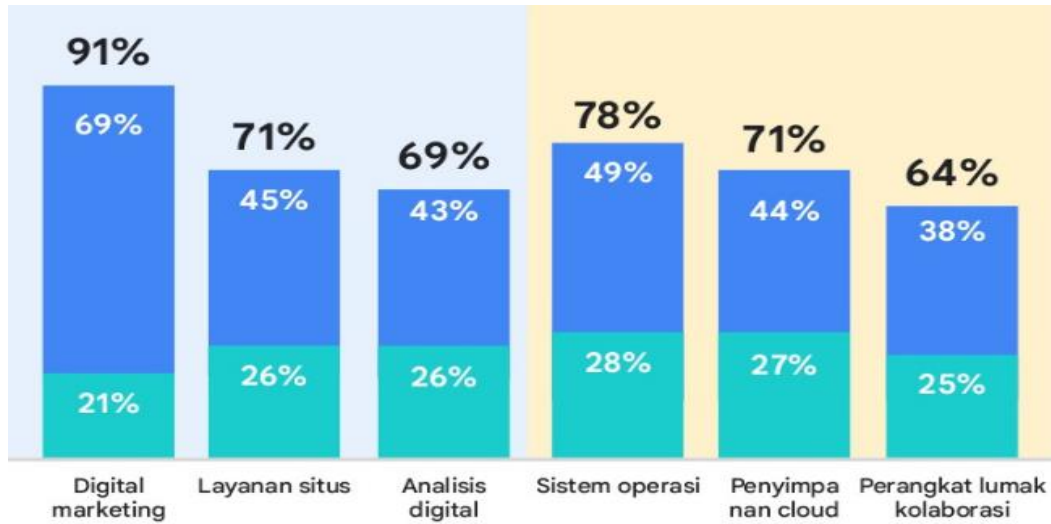


Figure 1. Digital Financial Trends

Source: KemenkopUKM, 2023

The digitalization of Cooperatives and MSMEs is in line with the challenges of the Industrial Revolution 4.0 which requires all economic activities to shift from conventional to modern. The Covid-19 pandemic has also accelerated this shift, in which business and economic activities that were originally offline have turned online. This makes the use of digital technology more massive. The positive impact felt by MSME actors with the existence of e-wallets or electronic money is improved growth in terms of transactions, more regular financial records, and increasing financial literacy by opening access to banking and digital financial services.

Bank Indonesia has also made regulations related to FinTech, namely Bank Indonesia Regulation No. 18/40/PBI/2016 concerning Implementation of Payment Transaction Processing. Bank Indonesia Circular No. 18/22/DKSP regarding the Implementation of Digital Financial Services. Bank Indonesia Regulation No. 18/17/PBI/2016 concerning Electronic Money. Meanwhile, electronic money is defined as a means of payment in electronic form where the value of the money is stored in certain electronic media. Users must first deposit money with the publisher and store it in electronic media before using it for transaction purposes.

When used, the value of electronic money stored in electronic media will be reduced by the value of the transaction and can then be refilled (top-up). Electronic media for storing electronic money values can be chips or servers. The use of electronic money as an innovative and practical means of payment is expected to help smooth the payment of mass, fast and micro economic activities, so that its development can help smooth transactions on toll roads, in the field of transportation such as trains and other public transportation or

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transactions at mini-markets. , food court, or parking.

It is hoped that the development of electronic money can also be used as an alternative means of non-cash payment that can reach people who have not had access to the banking system so far. Electronic Money (Electronic Money) is defined as a means of payment that meets the following elements:

- a. Issued on the basis of the value of money deposited in advance to publishers;
- b. The value of money is stored electronically in a medium such as a server or chip; and
- c. The value of electronic money managed by the issuer is not a deposit as referred to in the law that regulates banking

The legal basis for implementing Electronic Money has been regulated in Bank Indonesia Regulation Number 11/12/PBI/2009 dated 13 April 2009 concerning Electronic Money. Bank Indonesia Circular Letter No.11/11/DASP dated 13 April 2009 concerning Electronic Money. The use of Electronic Money as a means of payment can provide the following benefits:

- a. Provide convenience and speed in making payment transactions without the need to carry cash.
- b. No longer accepting change in kind (such as candy) due to traders not having small change (change).
- c. Very applicable for mass transactions with small value but high frequency, such as: transportation, parking, tolls, fast food, etc

Types of electronic money based on whether or not the holder's identity data is recorded at the Electronic Money issuer are divided into :

- a. Registered Electronic Money is Electronic Money whose holder's identity data is recorded/registered at the Electronic Money issuer. In this regard, issuers must apply the know your customer principle in issuing Registered Electronic Money. The maximum limit for the value of Electronic Money stored on chip or server media for registered types is IDR 5,000,000.00 (five million Rupiah).
- b. Unregistered Electronic Money is Electronic Money whose holder's identity data is not recorded/registered at the Electronic Money issuer. Maximum limit of Money value. Electronics stored on chip or server media for unregistered type is IDR 1,000,000.00 (one million Rupiah) ATM and credit card usage in the last five years grew by about 13 percent and 7 percent respectively. On the other hand, the growth of e-money usage has surprisingly outpaced both, at around 30 percent. However, this figure is only half of the surge in the use of contactless or mobile payments in the United States. Fintech companies around the world are currently pushing for a cashless society. In Indonesia alone, 44 percent of fintech companies are engaged in payments. Currently around the world, there are various interesting trends related to payments such as the birth of AliPay, WePay, Toss, PayTm, Venmo, Dwolla, Ruru and many more.

CONCLUSION

Financial literacy in the form of knowledge of financial products such as savings, deposits, insurance and investment is still very low so that it cannot improve business financial planning. Financial behavior will directly affect financial planning if supported

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by understanding and knowledge of finance. Financial behavior in this case is financial behavior such as setting financial goals, estimating costs accurately, estimating income appropriately, planning and budgeting one's spending, considering several alternatives when making financial decisions, adjusting to meet financial emergencies, meeting deadlines or bills on time, successfully meeting financial goals and successfully implementing overall spending plans into positive behaviors that can foster high personal financial plans carried out. Financial attitudes have not been fully implemented by the community in understanding their finances, causing financial attitudes not to be related to financial literacy and business financial planning. From these findings, it is hoped that MSME actors will still have a high financial attitude to support good financial literacy.

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