

Effect of Financial Inclusion and Financial Literacy on the Financial Performance of Micro, Small, and Medium Enterprises in Ambon City

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Abstract

The purpose of this research is effect of financial inclusion and financial literacy on the financial performance of Micro, Small, and Medium Enterprises in Ambon City. The type of research used is a quantitative research method. The population in this study is the perpetrators of Micro, Small, and Medium Enterprises in Ambon City who are registered with the cooperatives service with a total of 19,783 micro, small, and medium enterprises actors. So the research sample is 100 respondents. The method of analysis in this study uses multiple linear regression analysis. The results of the study show that financial inclusion has a positive and significant effect on financial performance. Financial literacy has a positive and significant effect on financial performance.

Keywords

financial inclusion; financial literacy; financial performance



I. Introduction

Currently, micro, small, and medium enterprises are one of the supporting factors for the economy in Indonesia. Indonesian Micro, Small, and Medium Enterprises are not affected by the economic crisis, and even continue to increase from year to year. During the economic crisis until now, micro, small, and medium enterprises have become one of the main driving factors for the Indonesian economy. Micro, small, and medium enterprises are business activities that can create jobs and provide economic services to the wider community and play a role in the process of equalizing and increasing people's incomes, promoting economic growth, and having a role in to achieve national stability. Micro, small, and medium enterprises in Indonesia are one of the main factors that play a role in developing economic growth.

It can be seen from the table, that the number of Micro, Small, and Medium Enterprises in Ambon City increases every year. The growth of Micro, Small, and Medium Enterprises in Ambon City has a significant influence on the economic growth of the people in Ambon City because micro, small and medium enterprises have succeeded in opening many business fields in various economic sectors, but most micro, small, and medium enterprises actors in Ambon City are still constrained by capital so that they have difficulty in developing their business.

To develop micro, Small, and Medium Enterprises in Ambon City cannot be separated from banking support in distributing credit to micro, small and medium enterprises actors. Every year the credit given to micro, small, and medium enterprises has increased. Micro, small, and medium enterprises credit is a loan given to debtors of micro, small, and medium enterprises to meet the definition and criteria of micro, small, and medium enterprises as stipulated in Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises.

The Financial Services Authority noted that the distribution of bank loans in Ambon City was the largest in Maluku, reaching Rp5.47 trillion in bank loans, followed by Southeast Maluku Regency with Rp1.58 trillion in bank loans, Central Maluku Regency and the patent district of East Seram is Rp1.27 trillion in credit per bank. Meanwhile, the highest credit growth occurred in Central Maluku District and East Seram District reaching 33.24%, Southeast Maluku District 13.65% and Ambon City 7.57%.

This means that Ambon City's credit growth is still relatively low compared to other districts. This shows that the barriers for the public in accessing financial institutions are the high level of unbankable (not meeting bank loan requirements) caused by the poverty gap, low micro, small, and medium enterprises financing, high microcredit interest rates, lack of MSME management capabilities, and the limited distribution channels of financial services, this makes the implementation of financial inclusion important. The micro, small, and medium enterprises sector that wants to apply for credit is hindered by the constraints of guarantees requested by the bank. Whereas most micro, small, and medium enterprises customers do not have adequate collateral that can be used to obtain credit. In addition, convoluted credit procedures and administration are also the cause of the debtor's reluctance to borrow from the bank and the credit interest rate is another consideration for customers to apply for credit. The following provides data on the main reasons for micro, small and medium enterprises not taking loans from banks in 2019.

In overcoming capital difficulties, there are 1,182 businesses that increase their capital by utilizing loans. Which is divided into 332 businesses that borrow from the bank and 850 businesses that do not borrow from the bank. There are various reasons why capital from bank loans is an obstacle for micro, small, and medium enterprises, it is known that the main reason for not borrowing hours from banks is because they are not interested in 770 micro, small, and medium enterprises, then the second is not having collateral as collateral for 60 micro, small, and medium enterprises and the last because of the difficult procedure of 20 micro, small, and medium enterprises. So it can be concluded that the main obstacle is that there is no interest in micro, small, and medium enterprises.

Another factor in increasing the economic growth of micro, small, and medium enterprises is the existence of financial literacy. Financial literacy will help business actors related to business management starting from the budget, business fund savings planning, as well as basic knowledge of finance to achieve business financial goals.

The purpose of this research is effect of financial inclusion and financial literacy on the financial performance of Micro, Small, and Medium Enterprises in Ambon City.

II. Review of Literature

2.1 Financial Inclusion

Financial inclusion is a condition in which everyone have access or can reach various services quality, smooth, timely, and reliable formal finance safe at an affordable cost according to your needs and the ability to improve welfare community. Financial inclusion is all efforts to eliminate all forms of obstacles or disturbances to public access or reach in utilizing financial services. The higher the increase in financial inclusion in micro, small, and medium enterprises, the financial stability of a country will also increase. From the above understanding it can be concluded that financial inclusion is an activity that facilitates public access to financial services and products.

In Indonesia, financial inclusion is one of the strategies national economy that increases economic growth through equitable distribution of income, reduction in poverty, and financial system stability (Hadad, 2010). Right everyone is guaranteed to be able to

access or reach you the full range of quality financial services at a cost affordable. The target of this policy is very concerned about the low-income poor, the community productive poor, migrant workers, and living communities in remote areas. Some of the principles of financial inclusion, namely:

1. Leadership

Develop commitment of government and financial authorities in increasing financial inclusion.

2. Diversity

Encouraging the availability of various financial services by service providers diversified finances.

3. Innovation

Develop technological and institutional innovations as a means to broaden access and use of the financial system.

4. Protection

Help take a comprehensive approach to consumer protection that involves the roles of all stakeholders in the public, private and community sectors.

5. Empowerment

Develop financial literacy and community financial capacity.

6. Cooperation

Strengthen coordination and create partnerships among all stakeholders interests in the public, private and community sectors.

2.2 Financial Literacy

The Financial Services Authority defines financial literacy as knowledge, skills, and beliefs that influencing the attitudes and behavior of individuals to improve the quality of decision-making and financial management in order to achieve prosperity. Financial literacy occurs when a person has skills or abilities that make that person achieve his or her goals by utilizing existing resources. Financial literacy is a person's ability or knowledge in managing all his financial resources effectively. Financial literacy is the ability to consider and make decisions regarding the use of money, financial literacy has a direct effect on one's welfare.

Good financial literacy will provide information adequate information about products, understanding of risks to customers, and good financial literacy in the community will increase tax revenue for the government to maximize the development of infrastructure and facilities for public services (Aribawa, 2016). Financial literacy indicators, namely:

1. General Knowledge of Finance

That is related to a person's basic knowledge about how to manage finances that are owned personally, to his family or business which is used as a reference in manage finances. Lack of financial knowledge can lead to mistakes in making decisions to save, borrow or invest. Knowledge of finance is very important not only for individuals but also for companies and economy, the higher a person's financial knowledge, the person tends to have financial behavior wise one.

2. Savings and Loans

Savings is a person's money savings in a bank that withdrawals can only be made on the terms agreed upon. According to Banking Law Number 10 of 1998, savings are customer deposits whose withdrawals can be made at any time time by the customer and in accordance with the terms agreed. Savings is someone's money saving of the portion of income that is not consumed but rather prepared or used for future needs will come. Loans

are loans given by creditors to individuals with a certain deadline for repayment, the bank is the receiving institution deposits from certain individuals or entities and make loans or credits. Loans are money or debt claims that must be repaid after a certain period of time that has been agreed between the borrower and the lender with interest.

3. Insurance

That is one form of risk control that is carried out by transferring risk from one party to another the other party.

4. Investment

That is to invest some money (funds) in one place with the hope that the money can increase and profitable. Investment is the expenditure of funds on the present with the aim of making a profit bigger ones in the future. Investment is saving a certain amount of money or assets owned saved to get more profit in the future which will come.

2.3 Financial Performance

Micro, small, and medium enterprises performance is the result of work achieved overall and compared with work results, targets, and targets that have been previously set (Wahyudiati, 2017). Performance is the achievement of the implementation of a activities and programs to realize the mission, vision, organizational goals and objectives set by the company. Micro, small, and medium enterprises performance is a result and evaluation of the work of the company obtained by individuals or groups in the form of division of activities with roles and duties towards employees certain period according to the company's standards.

Financial performance is the determination of certain measures that can measure the success of a company in generating profits. Financial performance is an achievement of the company's achievements in a period which describes the company's financial health condition with indicators of capital adequacy, liquidity and profitability. Financial performance is an achievement or result in carry out asset management effectively and efficiently on certain period by certain period management. Performance finance is the central role of the company in knowing and evaluating the level of success a company based on financial activities that have been carried out (Rudianto, 2017:189). From the above understanding can concluded that the financial performance of micro, small, and medium enterprises is is the achievement or achievement of a business in generating profits.

Not many micro, small, and medium enterprises actors have made financial reports in accordance with applicable provisions, so in In this research the researcher focuses on the growth rate business, operating income, total orders and operating cash position. Financial performance indicators in the study are as follows:

1. Business Growth

Business growth seen in terms of increased sales of both products and services in a business in one business period to the next business period, if the level of business sales increases, the profits will also increase.

2. Capital Growth

In running a business, one of the factors important is capital, capital is the initial foundation of a business to be built. Business capital is absolutely necessary for carry out business activities.

III. Research Method

The type of research used is a quantitative research method by processing primary data obtained from the respondents' answers to questions or questionnaire statements which are distributed directly to respondents and then analyzed so as to obtain data and results that are used to answer the problem formulation which exists (Octiva et al., 2018; Pandiangan, 2018). Quantitative research method is a research method based on the philosophy of positivism, used in researching on a particular population or sample (Asyraini et al., 2022; Octiva, 2018; Pandiangan, 2015). Quantitative research method is research that obtains data by statistical analysis.

Population is an area consisting of objects or subjects who have certain qualities and characteristics that has been determined by the researcher to be studied and concluded (Jibril et al., 2022; Pandiangan et al., 2018; Pandiangan, 2022). Population large ones make researchers not study/research from the existing population, for example such as limited funds from researchers, energy, and time, then researchers can take research using samples from that population. The population in this study is the perpetrators of Micro, Small, and Medium Enterprises in Ambon City who are registered with the cooperatives service with a total of 19,783 micro, small, and medium enterprises actors. The sample is part of the characteristics and the number of the population itself (Octiva et al., 2021; Pandiangan et al., 2021; Pandia et al., 2018). Determination of the number of samples in this study using the slovin formula. Slovin is a formula or formula to calculate the minimum number of samples if the behavior of a population is not known with certainty. Slovin's formula is used in survey research where the number of samples is large, so a formula is needed to get a small sample that is representative of the entire population. The calculation of the Slovin formula from this section contains the steps of researchers in conducting research, ranging from sampling methods to analytical techniques, presented in the form of paragraphs, minimizing bullets and numbering, complete and solid. So the research sample is 100 respondents.

The method of analysis in this study uses multiple linear regression analysis. Multiple linear regression analysis is a linear regression model involving more than one independent variable or predictor (Pandiangan et al., 2022; Tobing et al., 2018). Basically linear regression multiple is a predictive or forecasting model with using data with interval or ratio scale and there can be more than one independent variable.

IV. Results and Discussion

4.1 General Description

Ambon City is the capital of Maluku Province with a history as a famous spice trade area, forming the development of the city as a liaison and center for trade, education, culture and development.

The location of Ambon City is mostly in the area of Ambon Island, which geographically is in the position of 3°-4° South Latitude and 128°-129° East Longitude, where generally Ambon City covers the area along the inner coast of Ambon Bay and the outer coast. The Leitimur Peninsula with a total coastline length of 102.7 km. Administratively, Ambon City is bordered by Central Maluku Regency in the west, north and east. While in the south it is directly adjacent to the Banda Sea.

The area of Ambon City is 359.45 km² with a population of 427,934 people in 2016, the composition of women is 50.08% and men are 49.92%. The population density of Ambon City is 1,191 people/km². The population growth rate of Ambon City is quite

stable in the period 2006-2015 with an average of 4.78% per year. In 2016, the highest concentration of population density was in Sirimau District with a population of 178,611 people or 41.7% of the total population of Ambon City. The high population density in Sirimau District is because this sub-district is a downtown area with various trade service activities so that it attracts residents to live and carry out activities in Sirimau District.

Ambon City is divided into 5 sub-districts, namely Nusaniwe District, Sirimau District, South Leitimur District, Teluk Ambon Baguala District, and Teluk Ambon District. In this study, it was only carried out in the Sirimau Sub-District due to time constraints and the limitations of the author. For Sirimau Sub-District, there are 14 villages.

Ambon City is a city that is not too broad, but for business development it is sufficient to make a major contribution to regional economic growth and more specifically to improve the welfare of many people's lives. For this reason, financial institutions must pay more attention to business actors by channeling financing for the sake of the sustainability of their businesses and to improve their businesses, therefore it is only natural that business actors need capital to run their businesses. The practice of borrowing capital based on high interest, which is carried out by financial institutions, is very burdensome for the community in developing their business, because they are required to be able to return the amount of the financing value along with the interest which is quite large within a predetermined period of time without having to evaluate the value of the loan community business development. For this reason, it is necessary to have a financial institution that can help by providing loans that do not burden customers with repayment of loan capital and is expected to assist in developing the business.

4.2 Multiple Linear Regression Analysis Results

Table 1. Multiple Linear Regression Analysis Results

Variable	B	Sig.
Financial Inclusion	0.152	0.014
Financial Literacy	0.002	0.044

Dependent Variable: Financial Performance

The results of the study show that financial inclusion has a positive and significant effect on financial performance. This is because inclusion makes it easier for micro, small, and medium enterprises actors to access finance from financial institutions for business capital. This shows that good inclusion makes the financial performance of micro, small, and medium enterprises actors increase and vice versa, the lower the financial inclusion, the level of financial performance will decrease the lack of management capabilities of micro, small, and medium enterprises actors, and the limited distribution channels of financial services that make financial inclusion important to implement. The results of this study are in line with the research that has been carried out by Sanistasya (2019), with the research title "The Effect of Financial Literacy and Financial Inclusion on Small Business Performance in East Kalimantan" which shows that the results of the study show that financial literacy has a significant effect on towards the performance of small businesses and financial inclusion have a significant influence on the performance of small businesses. Financial inclusion has a positive effect on financial performance of Micro, Small, and Medium Enterprises in Tegal Regency so that increasing financial inclusion will have a good impact on financial performance for micro, small, and medium enterprises actors.

Financial literacy has a positive and significant effect on financial performance. This means that good financial knowledge of micro, small, and medium enterprises actors will support their ability to manage their business finances so that micro, small, and medium enterprises actors' finances can be controlled. Good financial literacy from micro, small, and medium enterprises actors will have an impact on a good improvement in financial performance. Understanding at the level of financial literacy is needed for business actors who are needed in preparing their business financial statements in order to seek funding. The results of this study are supported by Yanti's research (2019) which states that the financial literacy variable has a positive effect on the micro, small, and medium enterprises performance variable. With the knowledge of finance owned by business people, it will help micro, small, and medium enterprises improve performance in the form of regulating financial planning so that they can maximize the time value of money and can increase work efficiency and added value to the goods or services offered. In addition, literate business actors will optimize business performance carefully so that they have good financial capabilities and knowledge so that it will make it easy to manage their business. In addition, literacy also helps business owners in obtaining the financial knowledge and skills needed for business actors.

V. Conclusion

The results of the study show that financial inclusion has a positive and significant effect on financial performance. Financial literacy has a positive and significant effect on financial performance.

Based on the conclusions obtained in this study, to further increase the level of financial inclusion and financial literacy on the financial performance of Micro, Small, and Medium Enterprises in Ambon City, it is necessary for researchers to provide some suggestions as follows:

1. To increase financial inclusion, financial institutions (banks) must loosen the bureaucratic system and facilitate loan terms so that micro, small, and medium enterprises actors do not experience difficulties when they want to apply for credit. In addition, financial institutions are expected to facilitate the loan process by providing affordable interest rates in terms of helping micro, small, and medium enterprises actors to access and reach the products offered by financial institutions in order to increase business capital financing and income earned by micro, small, and medium enterprises actors.
2. To improve financial literacy, it is necessary to foster financial education related to the products and services offered, which are expected to increase knowledge about financial products and services. In addition, financial institutions can also increase assistance to micro, small, and medium enterprises actors. Where assistance can be in the form of coaching related to credit and capital as well as providing incentive and sustainable socialization, especially in terms of good financial management, planning and management, so that the financial knowledge of micro, small, and medium enterprises actors in Ambon City can increase.

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