

Conference Paper

Financial Literacy of the Banking Sector in Micro and Small Business in Semarang

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Abstract

The purposes of this research are to analyze the characteristics and financial literacy of MSMEs in Semarang. The data used are primary data and secondary data. The method used in this study is descriptive quantitative. The sample in this study were small micro businesses and small businesses in the city of Semarang. The level of financial literacy in Semarang by giving questions as many as 28 questions taken and modified from Chen and Volpe. The results showed that 79% of MSMEs literacy in Semarang was in the medium category, 18% low and 3% high. If viewed further on the financial literacy of MSMEs, it is divided into 4 aspects, they are personal finance knowledge, savings and debts, Investments and insurance aspects. The average MSMEs for general knowledge of personal finance in the medium category was 76.60%, the savings and debts dimension medium category 81.91%, the investment aspect was the medium category 45.74% and the low category 59.57% of MSMEs financial literacy for insurance. This shows that the financial literacy level of SMEs in Semarang still needs to be improved in order to be able to compete and improve business.

Keywords: literacy, financial, banking, micro and small business

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1. Introduction

The number of Micro, Small and Medium Enterprises (MSMEs) in Semarang has increased every year, where the number of MSMEs in 2015 was only 996, which continued to increase to 4906 in 2016, and in 2017 to 5152 MSMEs. The large number of MSMEs in the city of Semarang, not all of which are active in the sense that the business is developing well, have faced many obstacles, among others, due to limited capital. One effort to overcome these obstacles is to increase capital through loans to banking institutions. Bank Indonesia (2007: 1) states that banks as intermediary institutions and payment system implementers have an important role in the Indonesian economy given that the banking sector still dominates the financial system in Indonesia.

In the implementation of banking operations, there are still problems that occur between banks and the public. The problems faced are inadequate levels of knowledge and understanding of the people in the banking sector about the functions and roles

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of banks and banking products and services. People who have micro businesses or small businesses generally have a low level of education, therefore generally they do not want to connect with banking institutions in terms of additional capital they want.

Administrative problems are considered complicated and it takes a long time for the loan disbursement process to be expected. There are still many people who are associated with loan sharks who emphasize high interest rates. Therefore, socialization of banking is needed for micro business actors and small businesses about the role of banking in the economy.

The low level of banking financial literacy in micro and small businesses will worsen our economy, because economic actors cannot develop with small capital. According to *Peraturan Otoritas jasa Keuangan No.76 / POJK.07 / 2016* the knowledge, skills and beliefs that influence attitudes and behaviors to improve the quality of decision making and financial management in order to achieve prosperity are called financial literacy. Good financial literacy will make the right choices related to financial problems faced, both in the form of investment instruments, loans or savings. People who have good financial literacy will be able to take advantage of and take advantage of financial instruments offered by banks (Margaretha and Sari, 2015: 132).

Low financial literacy can foster the practice of financial fraud and unhealthy competition in financial markets which can ultimately be a barrier to effective financial intermediation. The low level of public financial literacy illustrates that there are still problems in knowledge, perspectives and financial behavior (Hidajat, 2015: 43). The purposes of this research are to analyze the characteristics and financial literacy of MSMEs in Semarang.

2. Research Method

This research is qualitative research, the research method used to examine a population or a particular sample, sampling techniques carried out randomly, data collection using research instruments, data analysis is quantitative (Sugiyono, 2016: 14). This research model is the best method for obtaining and collecting original data to describe the condition of the population.

Population according to Sugiyono (2016: 117) is a generalization area consisting of objects that have certain qualities and characteristics determined by researchers to be studied and then conclusions drawn. The type of data used in this study are primary and secondary data. Primary data is data that is directly taken from the object of research by individual researchers and organizations (Hidayatullah, 2015: 7). Primary

data is obtained by conducting direct interviews with economic actors, namely micro and small businesses in the city of Semarang. Sampling in this study is based on Cluster Technique. Cluster sampling is the technique of selecting a sample from groups of small units. This technique is used if complete data from the population is not obtained because the geographical and cost limitations of the population are far apart. In Semarang there are 16 subdistricts, then each sub-district is randomly selected by micro and small businesses to be used as samples.

3. Research Result and Discussion

Based on survey, the Semarang Government classified the types of MSMEs into several categories, namely handicraft MSMEs, processed food, furniture, herbs, metals and others. In this study, the types of MSMEs in Semarang were the largest in other fields, 48% which included laundry, photocopy. The second position is 42% food processing which includes the business of making chips and crackers, processed fish, processed soybeans, snacks and catering, salted eggs, food stalls and fried foods. Handicraft business is in the third position by 3% which includes ribbon embroidery, gold ink calligraphy, and batik.

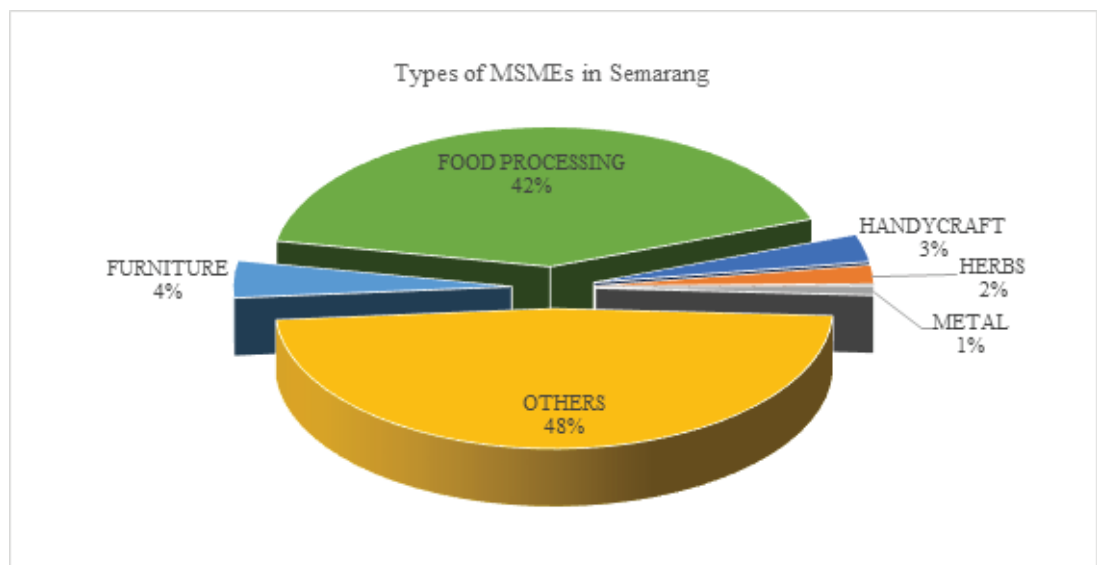


Figure 1: Types of SMEs in Semarang (Source: Primary Data).

Based on research, MSMEs in Semarang mostly have a business duration of more than 9 years with a percentage of 33%, businesses 4-6 years by 25% and few businesses that have a business duration of less than 1 year at 7%.

The number of workers in each MSME in Semarang are also very small, less than 10 people. The amount includes the business owner and the closest people who help the

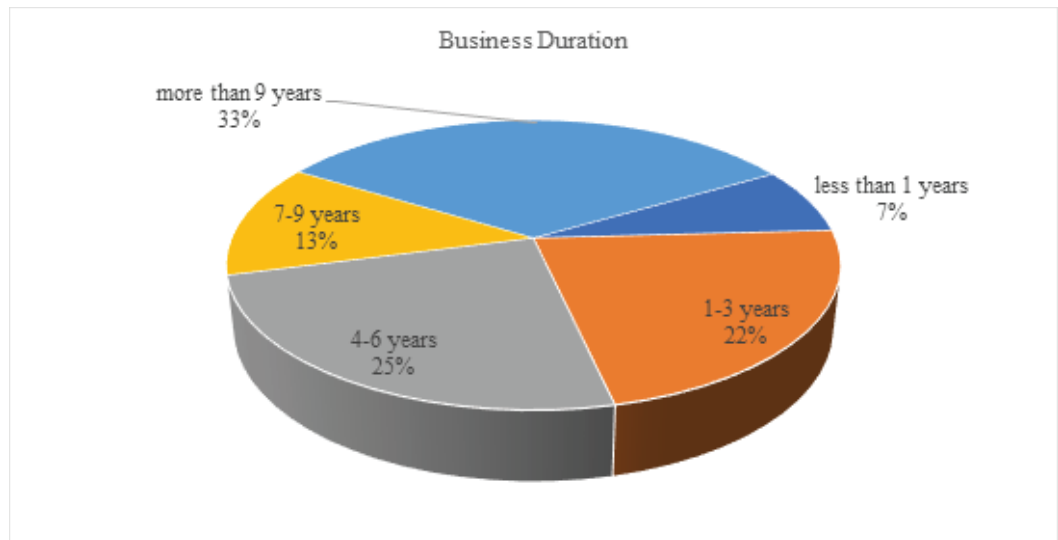


Figure 2: Business Duration MSMEs in Semarang (Source: Primary Data).

business being run. This is because most MSMEs in the city of Semarang are family businesses that have been handed down for generations. The results of the study also show that the limitations of the quality of human resources both in terms of formal education and their knowledge and skills greatly influence the management of their business. As a result, these efforts are difficult to develop optimally because it is relatively difficult to adopt new technological developments to improve the competitiveness of the products they produce.

Based on research on MSMEs in Semarang shows that as many as 48% of the majority of their last education are senior high school, then 20% of the principals are 20% junior high school while 11% are undergraduate level.

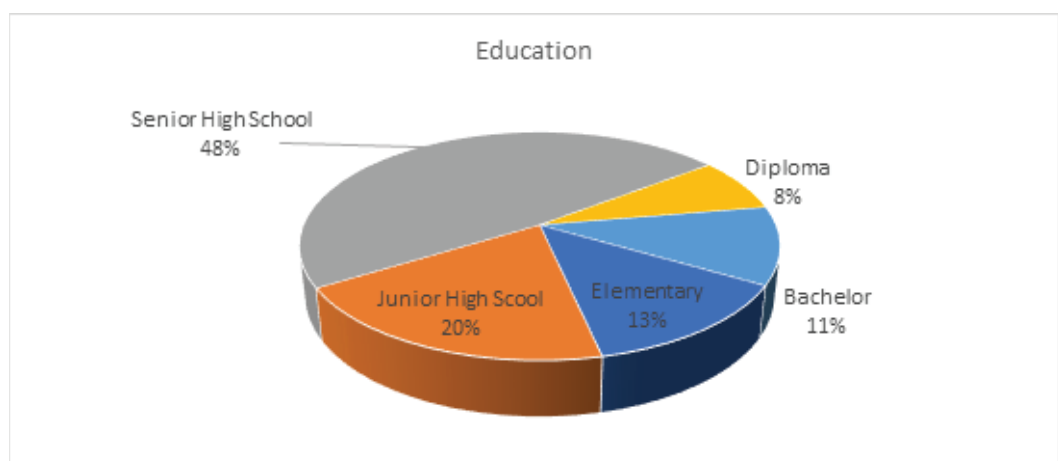


Figure 3: Education (Source: Primary Data).

UMKM income per month for MSMEs in Semarang is a less than five million rupiah per month. The second order of 37% of MSME players obtained monthly net income of 5-15 million rupiah.

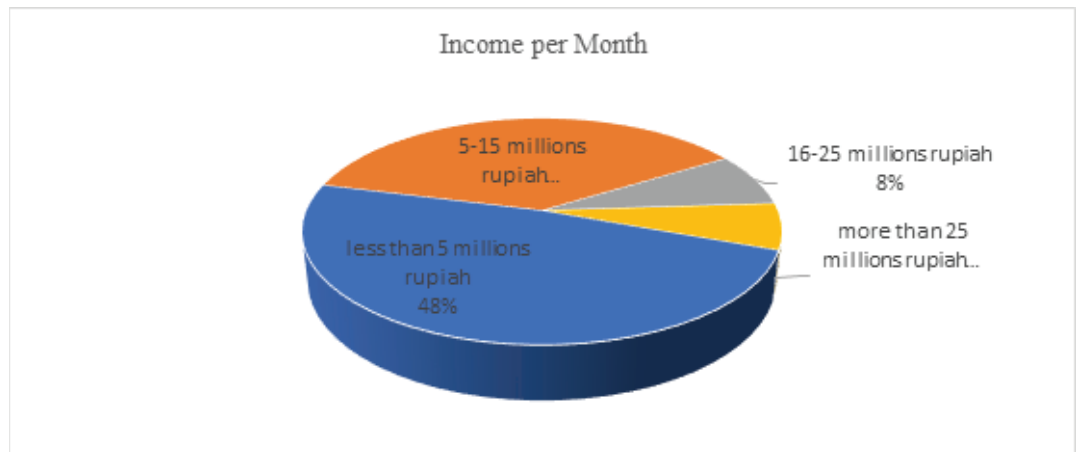


Figure 4: Income per Month (Source: Primary Data).

Simple marketing techniques are obstacles faced by MSMEs. Simple product packaging, no labeling, goods sold directly to buyers by door to door by 88% and the remaining 12% for MSME players who use social media to promote goods. The second biggest obstacle is 17%, which is an obstacle in obtaining raw materials. Some raw materials come from outside Semarang and fluctuating raw material prices.

The third obstacle is that MSME find it difficult to obtain additional capital. Only a few entrepreneurs dare to make loans as capital to banks for venture capital or business development. This is due to several reasons, the first is their fear of credit. They consider credit to be something taboo. There are concerns, they cannot pay installments every month. This is because their educational background is low so they never think of developing existing businesses to become more advanced. The second problem which is the reason for employers being reluctant to make capital loans to banks is the difficulty of getting a capital loan from a bank or other financial institution because the administrative and technical requirements requested by the bank cannot be fulfilled. The biggest requirement faced is the provision of collateral, because not all business owners have sufficient assets and are sufficient to be used as collateral. Because most MSMEs in Semarang are small household industries.

The level of financial literacy in Semarang by giving questions as many as 28 questions taken and modified from Chen and Volpe (1998) then performed calculations based on the correct answers answered by MSME. The answer is then divided by all questions then multiplied by one hundred percent. The classification based on Chen and Volpe's (1998) study, the level of financial literacy is classified into three categories,

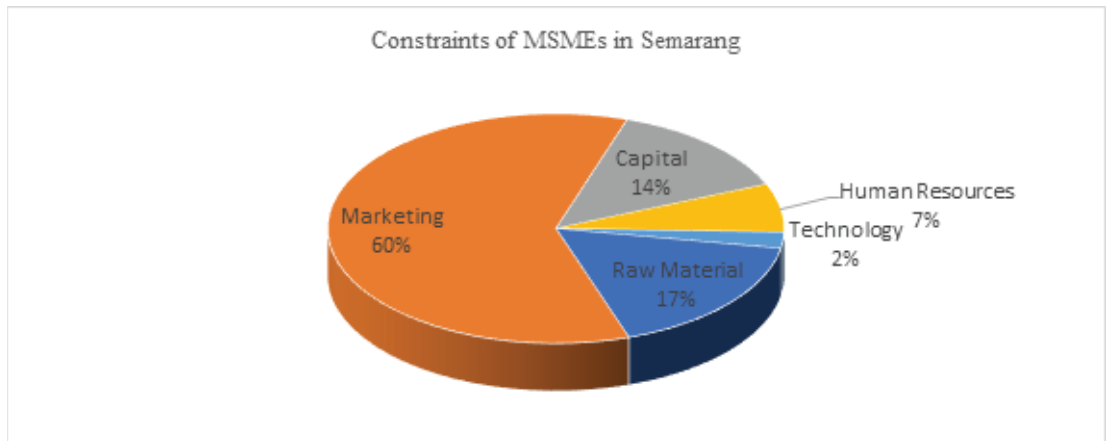


Figure 5: Constraints of MSMEs in Semarang (Source: Primary Data).

namely MSMEs have low financial knowledge, it is worth less than 60%, the category of actors has moderate financial knowledge if they get a value of 60%-80% and the category has high financial knowledge if they get a value of more than 80%.

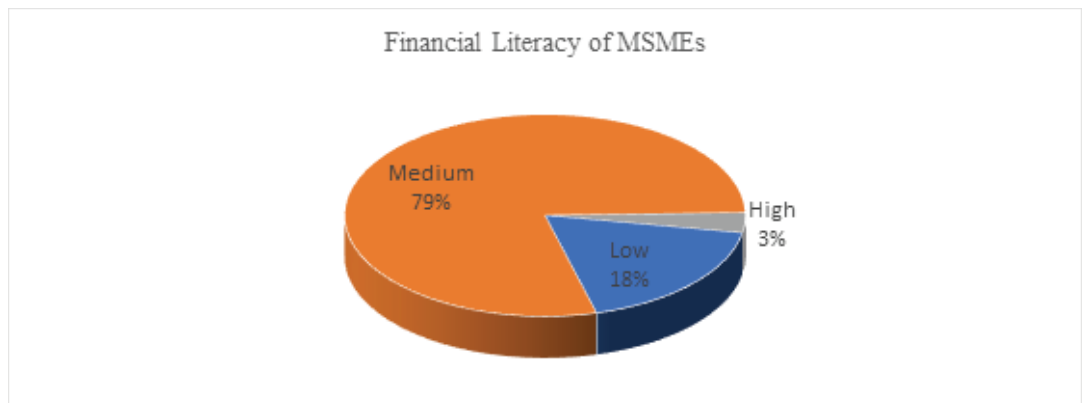


Figure 6: Financial Literacy of MSMEs (Source: Primary Data).

The results showed that 79% of MSMEs literacy in Semarang was in the medium category, 18% low and 3% high. Even though the average MSMEs has medium category of financial literacy. This shows that the financial literacy level of SMEs in Semarang still needs to be improved in order to be able to compete and improve business. Financial literacy will affect management skills and financial decision making. One of the benefits of financial literacy is the opportunity to access greater financial institutions and the ability to allocate the right funds. An adequate level of financial literacy also means that MSME will be able to understand and evaluate relevant information in making business decisions, can understand the consequences of decisions that will arise in the future. Therefore, MSMEs must be careful in making decisions by calculating the risks and benefits of financial decisions.

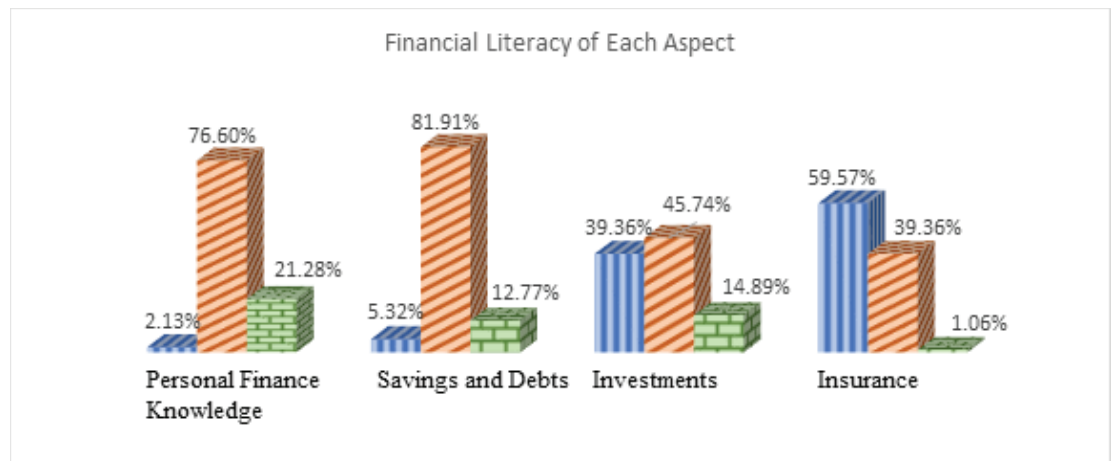


Figure 7: Financial Literacy of Each Aspect (Source: Primary Data).

If viewed further on the financial literacy of MSMEs, it is divided into 4 aspects, namely the personal finance knowledge, savings and debts, Investments and insurance aspects. The general aspect of financial knowledge is an understanding of financial concepts that are generally applicable. This knowledge will be the basis for understanding advanced finance. General financial knowledge includes personal financial knowledge and understanding basic financial concepts. MSMEs are required to make decisions that will affect the running of the business. General financial knowledge that is relatively high compared to other dimensions is due to the need for general knowledge as the basis for making decisions in the business. Based on the results of the study, the average MSMEs for general knowledge of personal finance in the medium category was 76.60%, high 21.28% and low 2.13%. This shows that generally MSMEs know the benefits of personal financial planning, regarding assets and income and profits.

This savings and debt aspect measures the extent to which business people understand the concept of savings and debts. Savings and debts are bank products that are closely related to people's lives. Financial literacy in the savings and debts dimension, including the medium category 81.91%, is caused by MSMEs who are accustomed to conducting transactions related to banking products in their daily business activities. The transaction will indirectly make MSMEs know information about banking products.

The investment aspect can be interpreted as a way to save or put money in order to work so that it can make more money. The method that is often used by someone in investing is by putting money into securities including stocks, bonds and mutual funds, or by buying real estate. The results showed a slight difference between the medium category of 45.74% and the low category of 39.36%. This slight difference is due to the financial orientation associated with financial goals. The financial goals that are owned are still more for short-term goals, for example to meet the needs of

everyday life. Knowledge of investment is needed by MSMEs because investment can be used as a source of side income in addition to the business being run. When MSMEs have started to be tempted by investment but have low knowledge, their chances of becoming victims of investment fraud are getting bigger.

The results showed that 59.57% of MSMEs financial literacy aspects of insurance were low. The knowledge of insurance is still low because insurance is not considered a primary need, so those who seek information are those who already feel the need.

4. Conclusion

The results showed that 79% of MSMEs literacy in Semarang was in the medium category, 18% low and 3% high. If viewed further on the financial literacy of MSMEs, it is divided into 4 aspects, they are personal finance knowledge, savings and debts, Investments and insurance aspects. The average MSMEs for general knowledge of personal finance in the medium category was 76.60%, the savings and debts dimension medium category 81.91%, the investment aspect was the medium category 45.74% and the low category 59.57% of MSMEs financial literacy for insurance. This shows that the financial literacy level of SMEs in Semarang still needs to be improved in order to be able to compete and improve business.

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