



# The Roles of Financial Literacy on MSMEs Financial Inclusion

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**Abstract.** Economic recovery due to the Covid-19 pandemic is being carried out by all countries in the world who are members of The Group of Twenty (G-20) Minister of Finance and Governor of Central Banks to avoid an economic recession. All economic actors globally are changing their new business strategies and tactics. Micro, Small and Medium Enterprises (MSMEs) owned by the Indonesian people have a major role in generating the country's economy. Business people do not only have to always think innovatively and creatively but also have to make changes to the business system, especially in the financial sector. Financial literacy is still not reached by business actors. The financial system is taken for granted and has no particular impact on business. The recording of business financial flows is still common and only simple. The purpose of community service is to train and assist business actors in providing an understanding of financial literacy. Business people receive a project to develop a financial recording system that is integrated with technology. The results of the analysis show that business actors have a good level of understanding of financial literacy to improve the business financial recording system. Financial literacy training and mentoring can support more systematic business management and profitability.

**Keywords:** Economic Recession · Micro Small and Medium Enterprises (MSMEs) · Financial Literacy

## 1 Introduction

The Covid-19 pandemic has brought changes and a decline in economic activity around the world. Due to the spread of this virus, the whole world is trying to stop transmission in various ways, one of which is physical distancing. However, the implementation of community activities resulted in a decrease in aggregate supply which resulted in a decrease in the amount of production and purchasing power of goods or services. This economic downturn causes the smooth running of the market mechanism that is not smooth and will cause an even economic crisis [1]. The impact of this real sector extends to the distress caused by the limitations of the investee in paying investors according to the business agreement. The pandemic also has an impact on imbalances in employees, customers, and financial flow chains that will cause a global economic recession. The pandemic also makes changes in all aspects permanent. All economic actors must make new strategies and arrangements in the implementation of their businesses.

Indonesia as a member of The Group of Twenty (G-20) Finance Ministers and Central Bank Governors has the opportunity to strengthen the economy. Indonesia has a role to play in promoting sustainable economic recovery. As a country that contributes to the improvement of the world economy, Indonesia can take this opportunity to introduce its potential in the international arena [2]. The existence of the G-20 is expected to have an impact and the participation of large and small businesses to increase the selling value of goods and services produced. This will also increase productivity figures in Indonesia in line with the adjustment of the new economic strategy. In addition, business players can compete not only in the domestic market but also internationally. Breakthroughs in economic development can also bring up small or medium-sized businesses to be able to compete in the market [3].

Micro, Small and Medium Enterprises (MSMEs) have a big role to increase economic development in Indonesia, economic growth and creating new jobs. Currently, the number of MSMEs in Indonesia continues to increase and develop in various sectors. The importance of increasing and developing MSMEs, government provides a forum through the Ministry of Cooperatives and SMEs [4]. The number of MSMEs that have sprung up has made the competition even tougher. MSME actors must produce innovations so that they can meet market demands and make Indonesia a market leader [5]. As a form of understanding innovation and meeting market needs, MSMEs must understand technology related to businesses that are developing and constantly changing.

The existence of MSMEs that are widespread can absorb a lot of workers. However, the number of MSMEs in Indonesia has several obstacles to business development and business expansion. These obstacles include a low understanding of business management, a low level of education, a lack of understanding in the field of technology and information, and obstacles to finance literacy [6]. Some of these obstacles, especially finance literacy, greatly affect the determination of profits, financial analysis and management of MSMEs [7]. Finance literacy is also useful for determining and making strategic decisions regarding the sustainability of MSMEs. This is a crucial problem in the financial management of MSMEs, therefore MSME owners need to be equipped with financial literacy knowledge.

Financial literacy is the ability or skill to understand how to manage finances, both personal finance, investment, and business that can be applied in everyday life. Financial management is important to read business progress opportunities, both short and long-term [8]. Finances that are managed systematically and structurally can produce financial information for decision-making for their owners. Financial management for MSMEs is useful for (1) knowing the financial performance of the business, (2) MSMEs can identify and differentiate company assets and personal assets, (3) MSMEs can find out the source of business funds, (4) MSMEs can make a budget plan (RAB) appropriate, (5) MSMEs can calculate the amount of taxes, (6) MSMEs can find out financial flows within a certain period. MSMEs need to have a good financial management system to increase their profits and increase their business assets [9].

The success of the MSME business can be seen in business management, competitiveness, and the level of business resilience against the competition. Financial management becomes a problem if the owners and managers of MSMEs do not have the

knowledge and ability to manage finances properly [10]. However, many business people still ignore the importance of managing business finances systematically. Finances are not managed and informed transparently to business financial reports. MSME actors only conclude that finances are still good as long as MSMEs still have a profit for their business. Whereas financial literacy is not only limited to earning a profit on the business [11]. MSME business actors still do not consider financial literacy as an ability that must be possessed as long as they are still earning temporary profits.

Some of the problems that usually arise due to low financial literacy are the absence of a mature budgeting plan to manage the business in the short or long term. Whereas the budget is made referring to business processes and estimates of business continuity. The same thing also happened to CV Boga Paripurna Berkah who had low financial literacy. Lack of financial management knowledge and skills in completing the preparation of financial statements is often considered complicated and difficult to do. MSMEs must have financial management even though it is simple, finances must be recorded as financial statements. However, CV Boga Paripurna Berkah does not have good financial records. MSME employees still have difficulty calculating accurate business results. The finance department has not systematically recorded financial budget activities.

Financial activities are not only recording the flow of money in and out of MSMEs, but also making proof of financial expenditures, invoice letters, and planning business activity budgets. A low understanding of financial literacy makes it difficult for CV Boga Paripurna Berkah to calculate temporary profits and possible losses suffered during the continuity of the business. Therefore, it is necessary to increase financial literacy for MSME actors through intensive training [12]. Improving financial literacy is done through training for CV Boga Paripurna Berkah. The existence of assistance also makes it easier for MSME actors to discuss finances and prepare financial reports [13]. This training and mentoring activity is expected to improve the financial literacy skills of MSME actors, especially CV Boga Paripurna Berkah.

## 2 Literature Review

Micro, Small and Medium Enterprises (MSMEs) have an important role in building a national development strategy and employment. MSMEs can also help distribute business goods to consumers. Another role of MSMEs in the economic sector is to reduce the level of inequality and foster a good system of cooperation. The level of purchases of domestic business goods can increase with the existence of businesses in the MSME sector. Increased productivity of goods and services produced by the MSME sector resulted in increased purchasing power and customer transactions. This certainly adds to the income and circulation of the national economy. However, there is a need for capability and business management from the small to medium sector.

Business management requires technology for business continuity. The use of technology is not only limited to increasing the productivity of physical goods or services, but also financial management. Financial technology is a technological innovation within the scope of financial services that helps people to transact easily. Financial technology is also one of the breakthroughs in digitalization in the financial sector. Many people are switching to products sold online in e-commerce. The payment system is also carried out online via a smartphone. This phenomenon has made large companies start

registering their financial technology with the Financial Services Authority (OJK). The classification of financial technology is (1) Crowdfunding and Peer to Peer Lending; (2) Market Aggregators; (3) Risk and Investment management; (4) Payment, Settlement, and Clearing.

Based on this, it is necessary to have financial literacy among MSME actors. The importance of financial literacy for MSME actors is MSME actors can manage, record, and report financial flows properly. Through this financial literacy, MSMEs are not only equipped with financial management skills, but also knowledge. This knowledge includes ingenuity so as not to be fooled by investment products or illegal loans. MSME actors can also consider the right product to avoid deceiving big profits in the short term without considering risk. Financial literacy also has a goal so that MSME actors can increase literacy from previously “less literate” to “well literate”. MSMEs who understand the importance of financial literacy will be able to increase the number of users of the products they produce, business financial systems and financial services.

### **3 Method**

The method of implementing research and service activities is carried out intensively through financial literacy training for MSME actors, especially CV Boga Paripurna Berkah by the research and service team. The Research and Service Team also not only conducts training but also provides comprehensive assistance. The output of this financial literacy research and service activity is expected to be able to record, record, and report business finances systematically. MSME actors are also expected to be able to produce complete and detailed evidence of receipts and expenditures of business finances. The researcher conducted a focus group discussion (FGD) before the implementation of the activity. This is done to obtain information on problems and constraints in business implementation and find solutions according to the problems experienced by MSMEs.

The results of this discussion are used as the basis for planning the implementation of training and financial literacy assistance. Researchers also conducted in-depth interviews with MSME actors to get responses, responses, and suggestions for the course of this activity. This information is used as material for evaluating the research team for the implementation of service according to the goals and achievements that have been determined. The following is a description of the steps of research and service activities:

#### **3.1 Coordination and Synchronization of Service Activity Schedule**

The purpose of this stage is to discuss the constraints of business implementation, find solutions, and adjust the implementation schedule. The material needs of the activity are determined together with other supporting activities. The schedule and location of activities are decided jointly by both parties.

#### **3.2 Planning Preparation for Service Implementation**

Service planning begins with the details of the material, making the arrangement of activities, and preparing other supporting needs. The tasks of each team are divided in detail and structurally at this stage. This step also ensures a comprehensive strategy for achieving training and mentoring objectives.

### 3.3 Chatbot Development for Mentoring Implementation

This step is in the form of planning to create a chatbot to answer the needs and questions of MSME actors according to certain keywords that have been provided. The creation of this chatbot is carried out to assist MSME actors in completing financial files. The research team hopes that the chatbot can solve the obstacles and problems experienced by participants during the training. This chatbot can also be used after the training and mentoring have been completed.

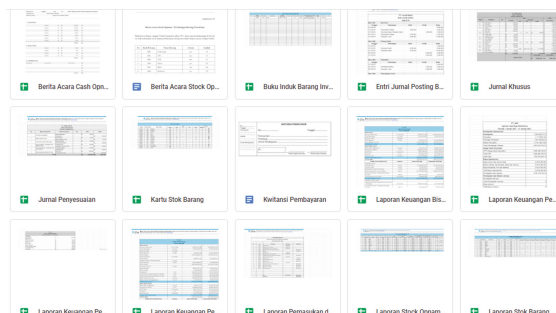
### 3.4 Implementation of Financial Literacy Training and Assistance

The implementation of service activities is centred on the direct practice of financial management, starting from recording, and making evidence of financial flows to financial reporting. The methods used include lectures, performances, simulations, and questions and answers. The research and service team also provided virtual assistance through WhatsApp groups and chatbot management for one month.

## 4 Findings and Discus

The purpose of community service is to increase the understanding and ability regarding the financial literacy of MSME actors, especially CV Boga Paripurna Berkah. Research and dedication are also carried out to provide an understanding of the importance of managing business finances in a systematic and structured manner [14]. The management in question is in the form of planning, recording, and reporting of business financial flows. This activity was attended by approximately 20 participants who manage MSMEs. Implementation of community service in the form of training and assistance to MSME actors, especially CV Boga Paripurna Berkah to provide comprehensive financial management practices. The training is carried out with the practice of presenting financial documents ranging from budget planning, transaction recording, and cash flow reporting (Fig. 1).

Recording cash inflows and outflows can not only be done manually by writing in an accounting book, but technology has changed it to be digital-based. One of the



**Fig. 1.** Collection of Financial Management Documents.

**Table 1.** Details of Training and Mentoring Materials

No.	Training and Mentoring Materials
1	Theories about the importance of financial literacy for business implementation in the digital era
2	Overview of financial management documents
3	How to record and plan a budget
4	Development of business finance projects based on planning and drafting a budget
5	Transaction journal creation project
6	Preparation of cash flow evidence
7	Project work on financial reports
8	Focus Group Discussion (FGD)

platforms that can be used to record receipts and disbursements is Microsoft Excel. Microsoft Excel based on number management can certainly be used to control the flow of business finances. Financial records can also be digital-based, so MSME players will have no difficulty in recording and processing the internal financial system [15]. Technology has accommodated the implementation of economic activities starting from the availability of platforms to the system of selling goods/services [16]. All economic activities have shifted digitally.

This digitalization needs to be understood by all MSME actors to be able to adapt their business operations to the technology that develops at every stage of their business implementation. There needs to be an understanding and improvement of financial literacy that must be mastered by MSME actors [11]. Digitization will facilitate business implementation, but it can also be a threat to MSME actors or business owners who cannot adapt quickly [13]. Not only have the production machines become more sophisticated, but the technical business implementation platforms have also become more sophisticated based on the internet.

The implementation of training and mentoring include the following materials (Table 1).

Financial literacy is very useful for MSME actors to be able to calculate company profits within a certain time [17]. The amount of the company's profit is needed to calculate the number of company wealth and as an opportunity to attract investors. Investors will not immediately want to invest, but an investor needs confidence to invest in a particular business. One of them is by looking at the number of business profits. Investors will also see the potential for business development within a certain time [18]. Big profits and business potential can be seen in the financial statements by the treasurer or the person in charge of business finance.

If business actors need more funds to develop their businesses, business owners can apply for funds from investors. However, it is necessary to prepare several things including business finances which have always been crucial [19]. This is what all MSME actors need to realize, especially CV Boga Paripurna Berkah to be able to improve and manage business finances systematically. Financial management files provided in



**Fig. 2.** The Process of Training and Financial Literacy Assistance

financial literacy training and mentoring activities can be selected and used for business continuity. The completeness of the files created and the remote assistance system are expected to make it easier for MSME actors to improve financial records (Fig. 2).

Not only limited to financial management, but the development of industry 4.0 leading to the era of society 5.0 also has a major influence on the use of more dominant technology. Various challenges must be faced by business people to run their businesses properly and smoothly. However, the era of society has changed the habits of the world community, especially the behaviour of buying goods/services [20]. The increasingly fierce competition between business owners must be addressed with the competitive value of each business owner. All competitors come with various business ideas and innovations in certain fields. The consumption pattern of the world's people who switch to the digital world, makes entrepreneurs have to take into account business continuity by plunging into the digital era [21]. If business owners do not understand the importance of business adjustments in the digital era, they will be displaced by the presence of online competitors.

Online competitors who have more control over the use of technology in the field of service and business development, will be a threat to MSME actors [13]. Of course, business owners don't want it if their business stops and there is no increased profit for a certain time. Some MSME actors who cannot adapt will continue to blame competitors for the profits they have achieved. If business people cannot adapt their businesses to the development of digitalization, they will lose out to businesses that can adapt to technology and digitalization developments [12].

The training and mentoring carried out for CV Boga Paripurna Berkah have been planned according to the needs and problems that occur in the continuity of business implementation. In addition to training by the description of the material described, the research team also assisted. Assistance is provided by the research team through chatbots that can answer the needs of MSMEs at a certain time. The chatbot planned and created by the research team also helps MSME managers when planning, recording, and financial reporting. This chatbot can provide a list of financial files needed by MSME actors to improve the financial management system.

PT. Jurnal Karya						
Entri Jurnal Umum						
Date 2018						
			Debit	Kredit	Saldo	
<b>Akhir 1917</b>						
<b>Kas Tunai</b>						
	Saldo					
	31-12-2018				5.000.000	
	10-12-2018	Pembayaran Piutang	4.000.000		9.000.000	
	15-12-2018	Pembelian Biaya Perawatan Kamar		1.500.000	7.500.000	
	30-12-2018	Pembayaran Piutang	3.500.000		4.000.000	
	31-12-2018	Penjualan Tunai	2.000.000		13.000.000	
<b>Akhir 1918</b>						
<b>Piutang Usaha</b>						
	Saldo					
	31-12-2018				2.800.000	
	31-12-2018	Penjualan Kredit	4.000.000		6.800.000	
	31-12-2018	Penjualan Kredit	3.500.000		10.300.000	
	30-12-2018			4.000.000	6.300.000	
	31-12-2018			3.500.000	2.800.000	
<b>Akhir 1919</b>						
<b>Persediaan</b>						
	Saldo					
	31-12-2018				12.000.000	
	30-12-2018			7.500.000	4.500.000	
	30-12-2018	Pembelian Barang		7.500.000		
	30-12-2018	Penjualan Tunai	2.000.000		2.500.000	

Fig. 3. Financial Literacy Project by MSME Actors

To support the implementation of financial literacy by MSME actors, the research team in the mentoring process also carried out performance and focus group discussions [22]. This activity is to assess the level of participants' understanding of financial literacy instilled by the research team. Financial project development is also carried out so that not only a few people understand financial literacy, but all MSME actors understand the importance of managing business finances (Fig. 3).

This project was carried out because this service aims to provide training so that skills in managing MSME financial flows are more systematic and structured. Based on in-depth interviews conducted with several MSME actors, they stated that this service activity provided an understanding of financial literacy and financial management skills. The understanding possessed is not only the practice of recording financial flows but also the understanding of the importance of profit reports for business continuity in the long term [13]. MSME actors are also more responsive to threats that will occur entering the era of society 5.0 with the use of more dominant technology. That way, MSME players can continue to encourage business change in creating a healthy financial climate.

## 5 Conclusions

The implementation of activities for the community regarding the understanding of financial literacy which was carried out through training and mentoring went well. MSME actors can understand the importance of financial management in the era of digitalization. Planning and organizing the research team in preparing for community service is not only through the provision of materials but also financial management practices and several other financial skills development projects. MSME managers can also use the financial files provided in the training process. The use of these financial files can improve business financial management in facing business challenges in the digitalization era.

Automated financial records that have leveraged technology can introduce the impact of technological change on long-term business viability. An increased level of understanding of financial literacy can change the pattern of business implementation that is more profitable and measurable. MSMEs can be provided with other financial platforms if they can implement this financial recording system well by other research teams. Financial literacy needs to be carried out so that all business sectors can face new threats and challenges in the digitalization era.



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