

Educating Small and Medium Enterprises (SMEs) in Understanding Financial Literacy

Budi Setiawan

Department of Management, Faculty of Economics, Indo Global Mandiri University, Palembang, Indonesia

Corresponding author: budi.setiawan@uigm.ac.id

ABSTRACT

Financial literacy and inclusion are crucial for Small and Medium Enterprises (SMEs) to remain competitive. However, many SMEs have a limited understanding of the concepts and applications of financial literacy, facing challenges in financial management and business development. This community service activity aims to educate SMEs about financial literacy, using an approach based on the problems faced by SMEs in Palembang and reports from the Financial Services Authority (OJK) regarding the gap between financial inclusion and literacy in Indonesia. The results of this service show that educational programs focused on real-life examples are highly effective in improving SMEs' understanding of financial literacy. The appropriate use of approaches and ongoing mentoring also significantly contribute to increasing SMEs' knowledge. Questionnaire evaluations show an increase in financial literacy, including knowledge of numeracy, inflation, and risk diversification between pre- and post-training. Therefore, structured and sustainable training programs are essential for supporting the growth and sustainability of SMEs. This program enables SMEs to leverage knowledge and understanding for better financial management and sustainable business innovation. Additionally, such training supports the United Nations program on Sustainable Development Goal Number 8 related to economic growth.

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INTRODUCTION

Financial inclusion and literacy have received significant global attention, especially after the global financial crisis in 2008. The crisis had a widespread negative impact on the economy and business activities, particularly affecting business actors who lacked adequate financial knowledge. Additionally, increasing financial literacy and inclusion is considered capable of enhancing business sustainability, while also aligning with the economic growth goals outlined in SDG number 8.

The Global Financial Index (2022) reported that access to formal financial services increased from 66% in 2014 to 76% in 2021. However, 1.4 billion young people worldwide, especially in Asia, still lack access to these services. Notably, India has the highest number of financially excluded individuals at 230 million, followed by China with 130 million, and Pakistan with 115 million. Indonesia has the 4th largest unbanked population worldwide, with 100 million.

Furthermore, a survey by OJK shows that Indonesia's financial literacy index increased from 38.03% in 2019 to 49.68% in 2022. However, a gap persists between financial inclusion and literacy, posing risks regarding the understanding and utilizing of financial products and services, especially among SMEs, which significantly contribute to Indonesia's economy. The Ministry of Economic Affairs Coordinator's report indicates that SMEs contribute 61% to Indonesia's Gross Domestic Product (GDP). In response, this community service initiative targets SMEs to enhance their understanding of financial literacy, drawing from selected topics in Lusardi (2019) such as numeracy, inflation, and risk diversification. These topics illustrate the significant impact of financial knowledge on financial decision-making. According to Basha et al. (2023), increased financial literacy has a positive effect on reducing business expenses for SMEs. Moreover, research by Yakob et al. (2021) and Uthaileang and Kiattisin (2023) highlights that financial literacy also provides higher motivation for driving SMEs business development.

This community service activity is collaboration between the Faculty of Economics of Indo Global Mandiri University and SMEs partnered with PT Pusri Palembang and the State-Owned Enterprises House of South Sumatra (Rumah BUMN Sumsel). In the first phase, the program is attended by SMEs operators from the main clusters identified as facing challenges in understanding basic financial concepts. The primary goal of this program is to enhance financial literacy among SMEs business owners in Palembang. Participants are provided with fundamental knowledge of financial management, covering concepts such as inflation, risk diversification, and compound interest. Through this training, it is expected that SMEs will become more competent in managing their finances and enhancing the competitiveness of their businesses in both local and national markets (Anshika et al. 2021; Rahmawati et al. 2023).

METHOD

Preparation Stage

The implementation method for the community service project began with coordination with Rumah BUMN Sumsel to identify the training needs of SMEs. After that, we agreed on the schedule for the community service activities, including the dissemination of posters and registration links on social media.



FIGURE 1. Media promotion for socialization community service

Then, the facilitators distributed questionnaires to assess the literacy levels of the participants. The questions in the survey were based on the questionnaire used by Klepper et al. (2015). Next, we had discussions with Rumah BUMN Sumsel to determine the best method for conducting the community service. Once all parties involved agreed on the plan, preparations for the community service began immediately. The community service activities were carried out smoothly and successfully, as evidenced by the enthusiasm of the participants, many of whom asked questions and actively participated in the discussions.

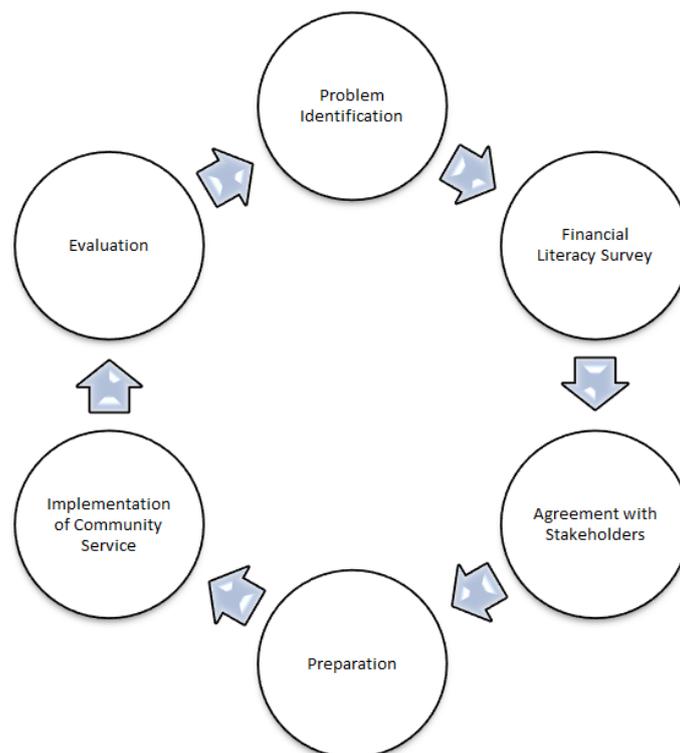


FIGURE 2. Community service flowchart

Implementation Stage

The educational process was conducted using several comprehensive approaches to ensure a thorough understanding among the participants. First, the material was presented in a structured approach, enriched with relatable examples from daily life. For instance, the impact of inflation on purchasing power was illustrated by presenting Indonesia's annual inflation data over the past 20 years. This data was then linked to the decline in the value of money, providing a clear and real example of how inflation affects day-to-day financial situation. Moreover, participants were actively engaged in the learning process by being given time to share their experiences related to basic financial knowledge. This interactive element allowed for a deeper exchange of ideas and insights, enhancing the overall learning experience. Participants could discuss real-world financial issues and solutions, making the session more relevant and practical. In the final session, dedicated time was provided for participants to engage in a question and answer section, followed by discussions. This open forum allowed them to delve deeper into topics of basic financial knowledge and explore other financial matters that could support the sustainability of SMEs businesses in Palembang. These discussions were not only about theoretical knowledge but also focused on practical applications, helping participants to better understand how to implement financial strategies in their businesses.



FIGURE 3. Educating SMEs business owner in Rumah BUMN Sumsel, Palembang

This multifaceted approach ensured that the educational process was both comprehensive and impactful, fostering a supportive environment for financial literacy and business sustainability. In this discussion session, we also learned about the needs of SMEs actors regarding the necessity of assistance in financial statement preparation. Based on feedback from SME business owners, Rumah BUMN Sumsel and the Faculty of Economics at Indo Global Mandiri University plan to continue collaborating to provide education on the process of preparing financial statements and this program includes conducting workshops and offering assistance to MSME actors in Palembang.

RESULTS AND DISCUSSION

Result

This community service activity was attended by 23 out of the 25 registered participants. The decline in participation was due to rain at the time of the event, which posed a challenge for some participants to attend. However, based on observations during the activity, the financial literacy education for SMEs in Palembang proceeded smoothly and interactively. The results of this community service activity include several important points. First, participants learned strategies to optimize financial planning, including risk diversification and asset allocation to cope with inflation. They also learned the importance of compound interest in enhancing purchasing power and business financial growth. This knowledge is crucial to help SMEs face the economic challenges they often encounter.



FIGURE 4. Discussion and evaluation after the community service

Second, participants gained information about the importance of basic financial knowledge for the sustainability of their businesses. This education covered an understanding of effective financial management and basic accounting principles that can help them in recording and tracking business expenses and revenues. Third, the financial literacy materials distributed during the activity allow participants to continue learning after the event. With these materials, participants can deepen their understanding and apply the knowledge they have gained in their daily activities. Overall, this activity successfully provided practical understanding for SMEs, helping them manage their finances better and face existing economic challenges.

Discussion

Figure 5 displays the comparison between pre-test and post-test results of 23 participants from Rumah BUMN Sumsel's financial literacy education on numeracy and compound interest. The assessment is measured using a question from Lusardi (2019): Suppose you have IDR 1,000,000 (IDR 1 million) in a savings account with an interest rate of 2% per year. After 5 years, how much money do you think will be in your savings account? The chart is divided into three categories: those who answered "More than IDR 1.020.000" "Less than IDR 1.020.000" and "I don't know." The pre-test results are represented by blue bars, while the post-test results are represented by orange bars.

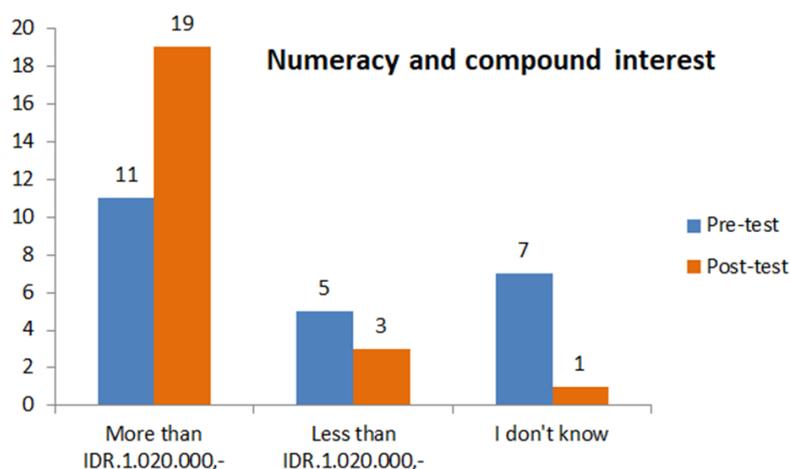


FIGURE 5. Pre-test and post-test result on numeracy and compound interest

In the pre-test, approximately 10 participants answered correctly with "More than IDR 1.020.000" indicating some prior understanding of compound interest. However, this number significantly increased in the post-test to about 18 participants, demonstrating a substantial improvement in the correct understanding of compound interest after the education session. Conversely, the number of participants who incorrectly answered "Less than IDR 1.020.000" decreased from around 5 in the pre-test to roughly 2 in the post-test. This reduction indicates that fewer participants held misconceptions about the growth of compound interest after the session. The most notable change is observed in the "I don't know" category. Initially, in the pre-test, a significant portion of participants, about 8 individuals, selected this option, showcasing a lack of understanding or confidence in their knowledge of compound interest. Post-education, this number drastically dropped to nearly zero, signifying that the education session effectively clarified doubts and boosted participants' confidence in their numeracy skills related to compound interest and personal digital finance (Lusardi, 2019; Prete, 2022).

Furthermore, Figure 6 compares participants' pre-test and post-test results on their understanding of inflation, using a question about the impact of a 1% savings interest rate versus a 2% inflation rate over one year. Responses were categorized into "More than today," "Less than today," and "I don't know," with pre-test results shown in blue bars and post-test results in orange bars. Initially, 7 participants incorrectly thought their future purchasing power would be "More than today," but after the educational session, this number dropped to 1. Conversely, the number of correct answers, "Less than today," increased from 4 to 18, indicating improved comprehension of inflation's effect on money value.

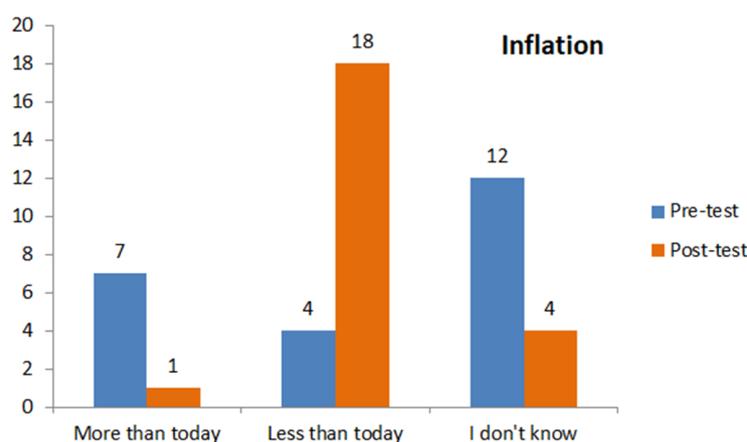


FIGURE 6. Pre-test and post-test result on inflation

The "I don't know" category saw a significant reduction, from 12 participants in the pre-test to 4 post-education, highlighting the effectiveness of the educational intervention. This finding aligns with studies by Kumar et al. (2023) and Basha et al. (2023), which demonstrate that targeted financial literacy programs enhance understanding of complex economic concepts. Such programs are vital for improving financial decision-making, contributing to the stability and growth of SMEs by better equipping business owners to handle financial challenges.

Figure 7 compares the results of pre-test and post-test responses on the topic of risk diversification. The data shows significant changes in the understanding of the concept after the intervention. Initially, in the pre-test, 13 participants (65%) selected "I don't know," 6 (30%) chose "FALSE," and only 4 (20%) answered "TRUE." These figures illustrate a considerable amount of uncertainty and misconceptions about risk diversification prior to the educational intervention.

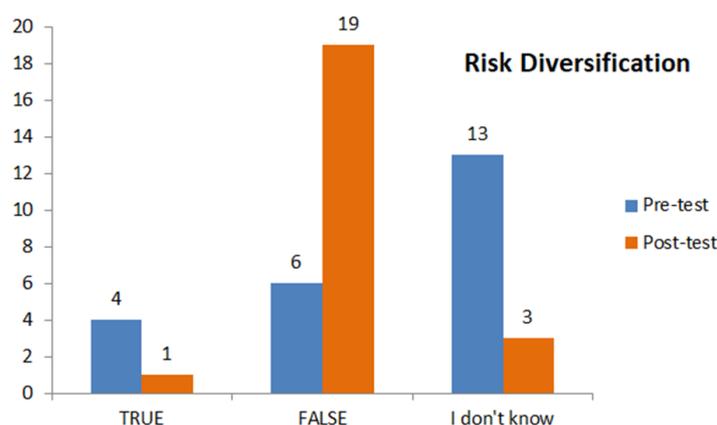


FIGURE 7. Pre-test and post-test result on risk diversification

Post-test results reveal substantial improvements. The number of "TRUE" responses decreased from 4 to 1, indicating a 75% reduction in incorrect affirmative responses. The "FALSE" answers increased dramatically from 6 to 19, showing a 216.67% increase, suggesting that more participants correctly identified the incorrect statement. Most notably, the "I don't know" responses dropped from 13 to 3, a 76.92% decrease, indicating a significant reduction in uncertainty. These changes suggest that the educational intervention effectively clarified the concept of risk diversification, leading to better understanding among participants. Studies conducted by Hermansson and Jonsson (2021) and Lusardi and Messy (2023) on financial literacy interventions have similarly noted marked improvements in post-test scores, reinforcing the effectiveness of targeted educational programs in enhancing comprehension of complex financial concepts (Khan et al. 2020). Furthermore, financial literacy education has been shown to enhance company control, promoting the sustainable growth of SMEs by increasing business efficiency and profitability (Sugiarti and Purnomo, 2024; Yuliani et al. 2024).

CONCLUSIONS AND RECOMMENDATIONS

The community service activity on financial literacy education for SMEs in Palembang yielded several conclusions. First, participants experienced a significant increase in their knowledge of basic financial information, particularly in areas such as numeracy, inflation, and risk diversification. This improvement is crucial for the sustainable growth and resilience of SMEs, equipping them with the skills needed to navigate economic challenges effectively. The training provided not only theoretical knowledge but also practical strategies that participants can implement in their businesses to enhance financial management and decision-making processes. The overall positive impact observed among the participants underscores the importance of ongoing financial education and support for SMEs to foster economic stability and growth at the local level.

The recommendations for this community service activity are as follows. Participants are advised to study and try to apply the material on financial literacy in their daily lives. They are also encouraged to start investing early by learning about various investment instruments such as stocks, mutual funds, bonds, and others. Finally, there needs to be collaboration between the government, practitioners, and academics to actively engage in socializing and educating the public about financial literacy. Therefore, the post-activity evaluation with Rumah BUMN Sumsel motivates us to conduct further community service activities involving more SME participants and including several academics and the Financial Services Authority (OJK) of South Sumatra.

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