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The Effect of Financial Literation on the Financial Performance of SME with Financial Inclusion as Intervening Variables

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Abstract:- This studi is aim to analyze the effect of financial literacy on financial performance MsME with financial inclusion as intervening variable in Sumbawa region. The research uses quantitative method. Sampels in study amounted to 100 respondents earned with cluster sampling. The data obtained were analyzed using Structural Equation Modeling Partial Least Square (SEM-PLS) analysis techniques through software SmartPLS version. 3.0. The results of the analysis in this study indicate that (1) Construct financial literacy of use significant has financial inclusion. (2) Contruct financial inclusion of use significant has financial performance creative SMEs. (3) Construct financial literacy of use significant has financial performance creative SMEs. (4) Construct financial literacy of use significant has financial performance creative SMEs with financial inclusion as intervening variable.

***Keywords**:- Financial Inclusion, Financial Literacy, Indonesia, SME.*

I. INTRODUCTION

Regarding changes in the global economy in recent years, people are required to be able to compete. As is well known, in 2016 the government officially imposed the ASEAN Economic Community (AEC) through the transformation of the Southeast Asian region into a single market and more dynamic and competitive production base. The implementation of the AEC is both a challenge and an opportunity for Indonesia. The existence of AEC opens market opportunities for goods, services, investment and labor freely (competitively). Facing this, the participation of the government, private sector and other institutions is needed in encouraging the creation and development of a better Indonesian economy through community-based economic development, namely SME.

Community-based economic development is one that the government proclaims through the SME sector. As is well known, SMEs are able to absorb 88% of the workforce and 40% of the national Gross Domestic Product (GDP) in Indonesia. Because of the role played by SMEs is economically very significant in driving people's income and welfare, the sustainability of SMEs is very important to pay attention to (Poppy, 2019).Not only that, because of this importance, it is necessary to improve the quality of MSMEs so that they can compete with foreign businesses in this free trade (ISBRC, 2014).

One of the main things in improving the quality of SMEs is financial performance. According to Trisantoro and Agastya (1996) financial performance is a process carried out and the results achieved by an organization in providing services or products to customers. Assessment and reviewing of financial performance needs to be carried out to get a picture of the achievement of the objectives set by the business actor. Andalan (2013) states that financial literacy, financial inclusion (access to capital), entrepreneurial readiness, and technology affect the financial performance of SMEs. Other research states that marketing constraints, lack of managerial competence, low literacy, limited inclusion triggers the lack of performance of SMEs (Romdhansyah, 2013).

Financial literacy is a person's basic knowledge of financial governance (Lusardi, 2009). The Indonesian Financial Services Authority (2016) in their survey stated that in 2013 only 21.8% of Indonesians had good financial literacy. Then this figure increased in 2016 with the level of financial literacy of the Indonesian people at 29.7%. This means that only 30 out of 100 people are classified as well literate. Object in this research in Provence NTB (West Nusa Tenggara) has a literacy rate of 21.5% or the second lowest in nasional Indonesia rank..Lack of education, literature studies and public awareness of the importance of financial literacy are the causes of the low level of financial literacy among people in NTB and even Indonesia. The results of this study indicate the slow growth of SMEs in NTB is partly due to the low level of public financial literacy. According to Andoh (2011), financial literacy has a positive effect on a person's business performance (agency). This is also supported by research conducted by Simeyo, et al. (2011) which states that if small businesses are provided with financial knowledge through financial literacy training, their performance will improve.

In contrast to the low financial literacy of the Indonesian people, Indonesian financial inclusion can be said to be quite high. This is based on the results of a national survey on financial literacy and inclusion conducted by the Indonesian Financial Services Authority in 2016 which stated that Indonesia's financial inclusion rate reached 67.8%. Meanwhile, West Nusa Tenggara province has an inclusion rate of 63.3%. From this data, it can be concluded

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that 63% of NTB people have access to financial institutions, but only 29.7% of NTB people understand financial governance. In other words, out of 100 people in NTB, 63 people have access to finance, but only 30 people can manage finances well.

Presidential Regulation No. 82 in 2016 stipulates that by 2019, 75% of the adult population has access to formal financial services. Based on the phenomena, it can be said that the target was almost achieved with the financial inclusion level reaching 67.82%. Unfortunately, this increase was not accompanied by a significant increase in financial literacy levels.The Indonesian Financial Services Authority (2016) states there are 4 indicators to measuring the level of financial inclusion, namely access, availability of financial products and services.

Based on explanation, this study tries to examine more deeply the correlation / relationship between financial literacy and financial inclusion which is detailed in the form of a hypothesis, namely:

H_1: Financial literacy has a significant effect on financial inclusion
H_2: Financial inclusion has a significant effect on financial performance
H_3: Financial literacy has a significant effect on financial performance
H_4: Financial literacy has a significant effect on financial performance with inclusion as an intervening variable

II. METHODOLOGY

This research uses explanatory research. This method tries to explain the causal relationship between exogenous variables and endogenous variables, the process of determining the relationship is proven by testing the hypothesis (Singarimbun and Effendi, 2008). This research uses cluster sampling technique, with data taken in Sumbawa Regency. Based on data from the Department of Cooperatives, Industry and Trade of the Sumbawa Regency, the number of SMEs registered in 2019 was 1779 SMEs. So the researchers clustered and determine the sample portion of each region. The following shows the proportion and number of samples determined in this study:

Table 1. Proportion and Number of Research Samples

Territory	Total	Proportion	Sample
West	331	19%	19
South	143	8%	8
Center	557	31%	31
East	751	42%	42

III. RESULT AND DISCUSSION

Table 2. Hypothesis Testing for Direct Effect

Construct	***Original sampel***	***T-Statistic* (O/SATDEV)**
Financial literation to financial inclusion	0.833	7.097
Financial literation to financial performance of SME	0.677	3.038
Financial inclusion to financial performance of SME	-0.821	2.095

➢ *The Effect of Financial Literacy on Financial Inclusion*

The results of the output path coeficients carried out in the first hypothesis, it can be seen that H1 formed in this study has a significant effect. This can be seen based on the results of the t-statistical test that has been done. Where the t-statistic value for H1 is 7,097, greater than the t-table which stipulates that the t-table value is 1.96. So, it can be concluded that there is a direct influence between the financial literacy construct on financial inclusion. This means that someone who has good financial literacy will be motivated to access financial institutions. In other words, the higher a person's level of financial literacy, the higher the level of financial inclusion in society.

Based on four indicators of financial literacy, namely basic knowledge of personal finance, credit and debt management, savings and investment, and risk management, it encourages people to gain access to financial institutions. Modernization causes easy access to information, including financial information. This then made the public know about financial institutions and products. The progress of the times has also made the community, including SMEs, to carry out buying and selling transactions by utilizing financial institution products.

Tsalitsa and Rachmansyah (2016) state that a person's level of financial literacy will affect financial inclusion. So, the more available financial institution services are, the easier it will be for people to get financial services. The facts speak that although there are many access to finance, the key remains in the community itself, whether to decide to use it or not. People who are well educated will always take advantage of banking services to help their daily lives. However, if the community does not understand or do not know the benefits, it will cause financial inclusion to be not maximal.

➢ *The Effect of Financial Inclusion on the Financial Performance of SMEs*

Based on the results of data processing by testing the hypothesis, it can be seen that the proposed H2 is acceptable. The output path coefficients show that the t-value statistic in the financial inclusion construct is 3.038, greater than the t-table value of 1.96. This means that the effect of the financial inclusion construct on the financial performance of SMEs is proven to be significant. So, it can

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be concluded that the higher the level of financial inclusion in society, the higher the financial performance of SMEs.

In this case, SME players in Sumbawa district are aware of the existence of financial institutions that can provide credit for business development. The results of field observations stated that 81% of respondents in this study were aware of the existence of financial institutions in their area. This is a form of financial access that is owned by SME actors. The forms of financial institutions used by MSME actors are quite diverse, including the People's Business Credit, danareksa, cooperative loans and so on. The ease of access allows SME players to develop their business well.

This research is relevant to Riwayati's (2017) research which identifies that to increase the level of sales, profit, employment, and capital, increasing financial inclusion can be one of the catalysts. Another thing that cannot be ruled out is that the increase in the number of jobs and long-term income is one of the contributions of the informal sector.

- *The Effect of Financial Literacy on the Financial Performance of SMEs*

Based on testing the third hypothesis it is known that the proposed H3 is accepted. The output path coefficients show that the t statistical value for the financial literacy construct on the SME financial performance construct is greater than 1.96, which is 2.095. So that the influence provided by financial literacy on the constructs of SME financial performance is significant. The results of this study are relevant to research conducted by Apristi Yani Rahayu (2016) which states that financial literacy affects the level of performance and sustainability of SMEs. This means that the higher level of financial literacy, business owners can manage their business performance well and ultimately this business has long-term performance and sustainability. Financial literacy has an important role in developing and improving the financial performance of SMEs. Business owner who have less knowledge tend to often make mistakes in making financial decisions, whether in credit decisions, personal or business risk management, or do not separate business money from non-business money. Meanwhile, business actors who have good knowledge have good personal management and financial management.

- *The Influence of Financial Literacy on SME Financial Performance with Financial Inclusion as an Intervening Variable*

Table 3. Hypothesis Testing for Direct Effect

Construct	***Original sampel***	***T-Statistic* (O/SATDEV)**
Financial literacy to financial performance of SME	-0.684	1.996

Based on testing the fourth hypothesis, it is known that the proposed H4 is accepted. The output path coefficients show that the t statistical value for the construct of financial literacy on the SME financial performance construct with financial inclusion as an intervening variable is greater than 1.96, which is 1.996, so that the effect of financial literacy on the SME financial performance construct is proven to be significant. That is, someone who has a good level of financial literacy then simultaneously has access to financial institutions, it will make business financial performance better.

The results of this study are relevant to research conducted by Bongomin, et al, (2017) which states that one of the ways to build self-confidence and business owner to become more aware of their role in the market (financial services) is to build good literacy. The opposite will happen if the business owner does not have sufficient financial knowledge, then the business actor will have a tendency to choose a more expensive or illegal source of financing.

The current phenomenon is the proliferation of illegal credit providers who charge unreasonable interest rates. However, the availability of access and financial institutions that stand in the midst of the community will educate people about finance. When the community / business actors have good literacy, in this case the credit mechanism and interest calculation, they will be better able to make decisions / strategies related to their finances. This then makes people rational in deciding to take credit. With this, financial literacy can help business actors in the development process so as to increase asset value, turnover and net income.

IV. CONCLUSION

The results of the study found (1) the construct of financial literacy has a significant effect on financial inclusion. (2) the financial inclusion construct has a significant effect on the SME financial performance construct. (3) the financial inclusion construct has a significant effect on the financial performance of SMEs. (4) the financial literacy construct has a significant effect on the financial performance of SMEs with financial inclusion as an intervening variable. This research still has limitations, including the measurement of SME financial performance indicators which are required to use more accurate measuring tools. So that in further research, more accurate research results are obtained.

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