



# The Role of Financial Literacy And Financial Inclusion In Improving Msme Performance: A Case Study In Kota Pari Village

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**Abstract.** Studying the effects of MSMEs' financial literacy and inclusion on their performance in Kota Pari Village, PantaiCermin District, SerdangBedagai Regency was the focus of this research. The research is aimed squarely at the SME sector. Financial literacy and financial inclusion, which have been shown to boost MSMEs' productivity, will be the focus of this research. This study employs a descriptive, quantitative method based on multiple linear regression analysis techniques to examine the data. Thirty micro, small, and medium-sized enterprise (MSME) players made up the research samples. It is hoped that the findings of this study would increase financial literacy and promote financial inclusion in Kota Pari Village, PantaiCermin District, SerdangBedagai Regency, so that micro, small, and medium-sized enterprises (MSMEs) in the area can maximize their performance. The study found that a positive and substantial influence of financial literacy and financial inclusion on the performance of MSMEs was present at a total percentage of 48.2%.

**Keywords:** *Financial, Literacy, Financial Inclusion, Performance and MSMEs*

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## 1. Introduction

In the modern era of globalization, commerce, both micro and macro, is one of the things a country must do to improve its economy. Suhariyanto, the head of the Central Statistics Agency, said that the industrial business sectors were the most important contributors to growth. The rise in employment may be traced directly back to the expansion of the economy. Which means that both large and small traders play an important part in fostering economic expansion[1]. For the purposes of this definition, a micro, small, or medium enterprise is a business that has less than 500 employees and annual revenues of less than \$1 billion. Small and medium-sized enterprises (SMEs) play a crucial part in economic growth and development, which benefits Indonesia as a whole. Because of the MSME sector, unemployment is mitigated and new jobs are created[3]. In order to foster a more equitable and inclusive economy, the government has set a goal of 8 percent economic growth by 2019 in the National Medium-Term Government Draft (RPJMN) for 2015-2019.

For micro, small, and medium-sized enterprises (MSMEs) to grow, their actors must be capable of competing with one another. This is done so that actors in MSMEs can launch novel firms, and MSMEs are also held to high standards in terms of their financial intelligence. Although MSME could play an important role, there are still several obstacles to their growth. According to [4], delays in the development of MSMEs are common because many traditional concerns, such as issues with human resource capacity, ownership, financing, marketing, and other problems linked to business management, have not been fully resolved. Therefore, deliberate actions are required to boost the efficiency of MSMEs[5]. A company's performance indicates how well it is doing in terms of reaching its objectives.

Work that directly impacts the organization's strategic goals, the satisfaction of its customers, and the growth of the economy is highly effective. Nonetheless, Indonesian SMEs' overall performance lags behind that of their regional counterparts.

Nowadays, it's crucial to be financially savvy. Personal financial management skills are a sign of financial intelligence[6]. For one's own well-being, every person needs the ability to efficiently manage their own financial resources. Long-term financial decisions, like saving for retirement or sending the kids to college, are just as important as short-term ones like making ends meet in the present. The importance of financial education has grown in recent years, particularly in economically advanced nations. Financial literacy refers to a person's decision-making skills in the realm of personal financial management. Mismanagement, or the failure to properly prepare for and handle one's finances, can also lead to financial issues. Stress and lack of confidence are common results of having little funds. Individuals' standard of living and quality of life will rise as a result of their increased ability to manage their personal finances thanks to the availability of financial knowledge and financial literacy.

The ability to make sound financial decisions and manage one's money wisely is essential to a prosperous life, and this ability requires financial literacy[7]. Financial inclusion, which is helpful for boosting access to money for the Indonesian people, is one factor that can overcome the numerous causes of low financial literacy. According to the Center for Financial Inclusion, "financial inclusion" means that all people have easy, affordable, and appropriate access to a full range of financial products, such as credit, savings, insurance, and payments.

Public financial literacy will inevitably lead to community financial inclusion, as predicted by [8]. Access to financial institutions, products, and services is essential in bolstering communities that are financially literate, know how to make effective use of financial products and services, and trust financial service providers. According to the National Strategy for Inclusive Finance,[9] the year 2019 is set as the deadline for reaching a financial inclusion index of 75%. Governments care about financial inclusion because it has the potential to promote long-term economic growth, decrease inequality, and boost citizens' standard of living. There is a growing demand for education about the importance of financial literacy and financial inclusion in bolstering the performance of micro, small, and medium-sized enterprises (MSMEs).

## **2. Literature Review**

### **2.1. Definition of MSMEs**

Micro, small, and medium-sized businesses, or MSMEs, play a significant role in the economies of many countries and regions. Micro, small, and medium-sized enterprises (MSMEs) are the economic activities of individuals on a small to medium scale and should be shielded from unfair market competition. In Indonesia, SMEs played a crucial role in getting the country over the economic crisis that hit between 1998 and 2000. The government of Indonesia has made an effort to support and advise micro, small, and medium-sized enterprises (MSMEs) by establishing a dedicated portfolio of ministries, headed by the Minister of Cooperatives and SMEs ([www.depkop.go.id](http://www.depkop.go.id)). According to [10], MSMEs are self-sufficient businesses run by individuals or organizations across all economic sectors. [Click or tap here to enter text.](#)

### **2.2. MSME performance**

A person's or a team's performance is the end result of their efforts to carry out the tasks assigned to them within the scope of their responsibilities and within the constraints of the organizational structure. A program's or activity's performance is an indicator of how well it's helping the organization achieve its stated goals and objectives, as well as its vision and mission. It is crucial for MSMEs to have successful financial, production, distribution, and marketing operations. It is envisaged that thriving micro, small, and medium-sized enterprises (MSMEs) will strengthen the economic foundation of the country. The administration has consistently placed a premium on addressing the UMKM identity crisis.

MSME performance, as defined by [11] in (Dinar 2017), is the outcome of an individual's or group's efforts to complete a set of predetermined objectives within a given period of time and with the resources at its disposal. Performance in a micro, small, or medium-sized enterprise (MSME) is defined as the sum

of an employee's efforts over a given time period, as determined by the tasks assigned to that employee within the MSME, and is proportional to the MSME's value or standard.

### **2.3. Definition of Financial Literacy**

Financial literacy is defined as "knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision-making and financial management in well-being" according to Financial Services Authority Regulation Number 76/POJK.07/2016 concerning Increasing Financial Literacy and Inclusion in the Financial Services Sector for Consumers and Communities. To participate in the economic sector, it is necessary to have a firm grasp of basic financial concepts and risks, as well as the ability to put this knowledge to use in order to better one's own financial situation and that of one's community. Individuals are at danger of being taken advantage of by fraudsters because they lack the knowledge to make informed decisions on savings and investment products.

### **2.4. Definition of Financial Literacy**

Financial inclusion, as defined by the Consultative Group to Assist the Poorin[8], is defined as the effective access of business households to users of financial products and services. These monetary offerings must be made possible in a way that is both long-term and well governed. According to the Center for Financial Inclusion, "financial inclusion" means that all people have ready access to a range of financial services, such as credit, savings, insurance, and payment options, and that they are able to do so in a way that meets their needs in terms of ease of use, cost, and suitability, while also protecting their interests as a consumer. For the sake of this discussion, we will define "financial inclusion" as "the extent to which individuals and businesses in a given area have access to a range of appropriate and suitable financial products and services"[8].

## **3 Method**

### **3.1. Research Method**

This study takes a quantitative approach, utilizing numerical data and statistical analysis, to provide a descriptive account of the subject matter. Data analysis is quantitative in nature and is performed after the data has been collected using research tools for the purpose of testing the hypotheses. Instead of hypothesizing from theoretical foundations, quantitative researchers first gather data, then use that data to test their hypotheses, and lastly draw conclusions based on their findings[12].

In keeping with [13]One definition of descriptive research is any study that focuses solely on one or more independent variables without drawing any comparisons or making any connections between them (an independent variable is a variable that stands alone; if it were always paired with a dependent variable, it wouldn't be independent). As stated by[14]The quantitative approach is a kind of positivist research that focuses on small samples or whole populations. Research instruments are used in the data collection. Quantitative or statistical methods are used in data analysis, and the goal is to put theories to the test. Kota Pari Village in the Pantai Cermin District of the Serdang Bedagai Regency in North Sumatra was the site of this study.

### **3.2. Population and Sample**

The term "population" refers to a broad category that includes all the things or people the researcher is interested in studying and drawing conclusions about[14]. In order to generalize research findings, it is necessary to study a large enough sample of the population whose traits can be stated to be the same. The people of Kota Pari Village, Pantai Cermin District, Serdang Bedagai Regency, who identify as UMKM, are the focus of this research.

The sample represents a subset of the population in terms of size and distribution. While sample size is a process to establish how many people will be included in a study[14]. Purposive sampling was employed for this study's data collection. There are specific factors to think about while using the sampling method of "purposeful sampling"[13]. This method of purposive sampling is employed because

it is appropriate for use in statistical research, or in studies that do not attempt to generalize[13]. This research relied on a sample size of 30, all of whom were drawn from the UMKM in Kota Pari Village, Pantai Cermin District, Serdang Bedagai Regency.

### 3.3. Data Analysis Techniques

The method of data analysis used in this research is to carry out quantitative analysis which is expressed in numbers which in the calculations use statistical methods assisted by the Management Program Computer Statistical Product and Service Solutions or SPSS v. 25. The data analysis method used to analyze the data that has been collected in this study, as follows:

#### Descriptive Statistical Analysis

Data collection, compilation, and presentation procedures are the focus of descriptive statistics. The purpose of descriptive statistics is to provide more comprehensive information by summarizing, presenting, and describing data in an understandable style. Simply said, descriptive statistics are concerned only with describing or providing information about a data set, situation, or phenomena.

Descriptive statistics are techniques for gathering and presenting data for analysis and interpretation. Descriptive statistics are used to provide a summary of the topic of study based on data collected from a representative sample or the entire population [13]. Descriptive statistics typically provide data as a concentration index (Kuswanto, 2012). The mean is a popular statistic for determining the midpoint of a set of data. Data can also be presented visually, in the form of charts and tables, or numerically, in the form of a concentration measure.

#### Multiple Linear Regression Analysis

The data analysis technique used is multiple regression analysis to analyze the linear relationship between 3 (three) or more independent variables and 1 (one) dependent variable. The regression model in this study is as follows:

$$Y = \alpha + X1 + X2 + \varepsilon$$

Information:

Y = MSME performance

$\alpha$  = Constant

X1 = Financial Literacy

X2 = Financial Inclusion

$\varepsilon$  = Error Term

#### Classic assumption test

The standard assumption test is designed to provide evidence that the derived regression equation is free of bias and consistent in its estimation[15]. According to [13], the classic assumption test consists of a normality test, a multicollinearity test, and a heteroscedasticity test; in the presence of heteroscedasticity, the variance is not constant, which can lead to standard errors; in the presence of multicollinearity, it is difficult to isolate the individual effects of the variables, which leads to a low significance level of the regression coefficient. This necessitates a check against the classical assumptions.

#### Hypothesis test

Testing this hypothesis was carried out to determine the effect of the independent variables on the dependent variable, either by jointly testing the regression coefficient (simultaneous or F-test), individually (partial or t-test) and the coefficient of determination ( $R_2$ ).

## 4 Results and Discussion

### 4.1. Research result

#### Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis Test Results

	Descriptive Statistics				
	N	Minimum	Maximum	Means	std. Deviation
Performance UMKM	30	12.00	30.00	21.0333	4.54467
Financial_literacy	30	10.00	25.00	17.1000	3.74488
Inclusion Financial	30	11.00	23.00	17.9667	3.99554
Valid N (listwise)	30				

Source: Primary data processed with SPSS v.25, 2023

Based on Table 1, it is known that the descriptive statistical results of the Financial Literacy variable have a minimum value of 12.00, a maximum value of 30.00, a mean value of 21.0333 and a Std. Deviation of 4.54467. The Financial Inclusion variable has a minimum value of 10.00, a maximum value of 25.00, a mean value of 17.1000 and a Std. Deviation of 3.74488. The MSME Performance Variable has a minimum value of 11.00, a maximum value of 23.00, a mean value of 17.9667 and a Std. Deviation of 3.99554.

### Multiple Linear Regression Analysis

**Table 2.** Test Results of Multiple Linear Regression Analysis

Model	Coefficients <sup>a</sup>				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	9,737	4.215		2,310	0.029
Financial_literacy	0.636	0.208	0.524	3,058	0.005
Inclusion_Financial	0.523	0.195	0.420	2.118	0.007

a. Dependent Variable: Performance UMKM

Source: Primary data processed with SPSS v.25, 2023

Based on Table 2, the results of the multiple linear regression test are in the regression coefficient column. The standard multiple linear regression equation results can be obtained, as follows:

$$Y = 9,737 + 0,636 \text{ Financial Literacy} + 0,523 \text{ Financial Inclusion} + e$$

It is known that the constant value is 9,737. This value can be interpreted if Financial Literacy and Financial Inclusion affect the dependent variable MSME Performance, then the value of the MSME Performance dependent variable is 9,737.

It is known that the regression coefficient value of the Financial Literacy variable is 0.636, which is positive. This means that when Financial Literacy increases by 1 unit, MSME performance tends to increase by 0.636.

It is known that the value of the regression coefficient of the Financial Inclusion variable is 0.523, which is positive. This means that when Financial Inclusion increases by 1 unit, MSME performance tends to increase by 0.523.

### Classic assumption test

#### a. Normality test

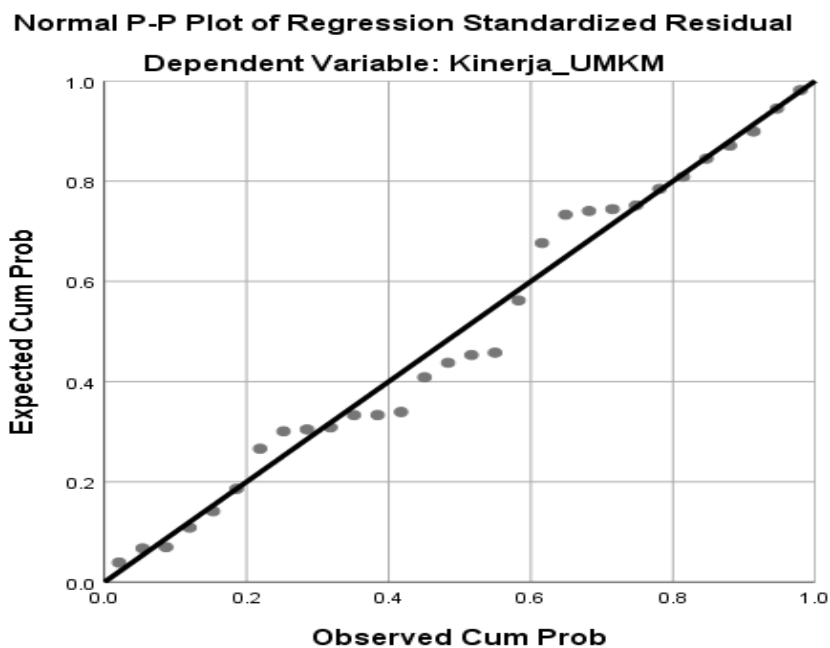
**Table 3.** Normality Test Results  
One-Sample Kolmogorov-Smirnov Test

		Performance UMKM
N		30
Normal Parameters, b	Means	21.0333
	std. Deviation	4.54467
Most Extreme Differences	absolute	0.081

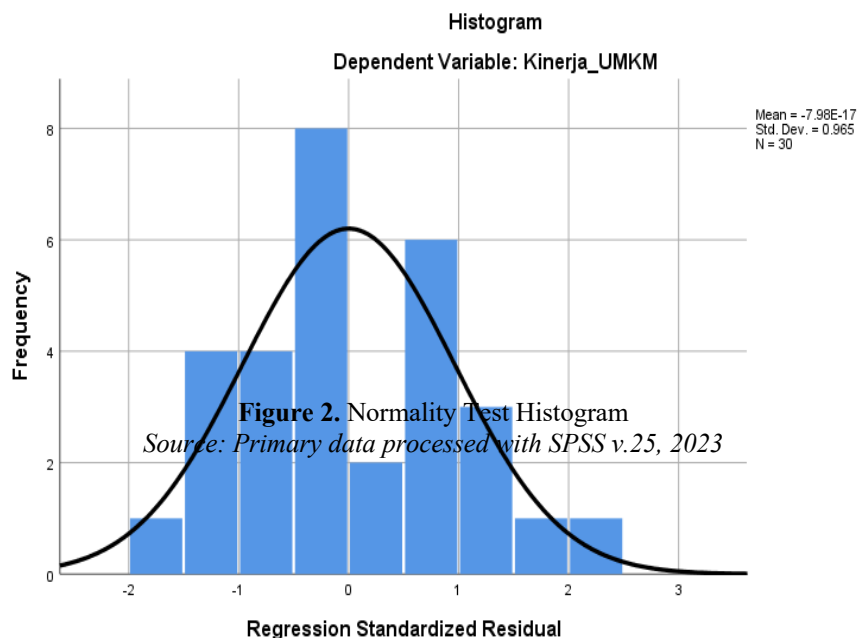
	Positive	0.081
	Negative	-0.067
Test Statistics		0.081
asymp. Sig. (2-tailed)		0.200c,d

- a. Test distribution is Normal.
  - b. Calculated from data.
  - c. Lilliefors Significance Correction.
  - d. This is a lower bound of the true significance.
- Source: Primary data processed with SPSS v.25, 2023

Based on Table 3, it can be seen that the statistical results of the Kolmogorov-Smirnov test of 0.081 are greater than 0.05, so it can be stated that all data is normally distributed. The next normality test is the normal probability plot and histogram which is a comparison of the actual cumulative distribution of the data with the normal cumulative distribution. The results of this test can be seen in the graph, as follows:



Based on Figure 1, it shows that the distribution of data is around the diagonal line and is not scattered far from the diagonal line, so that the assumption of normality can be fulfilled by testing and testing can be continued to the next stage.



Based on Figure 2, it shows that the shape of the histogram depicts data that is normally distributed or nearly normal because it is shaped like a bell (bell shaped), so that the assumption of normality in this study can be fulfilled.

**b. Multicollinearity Test**

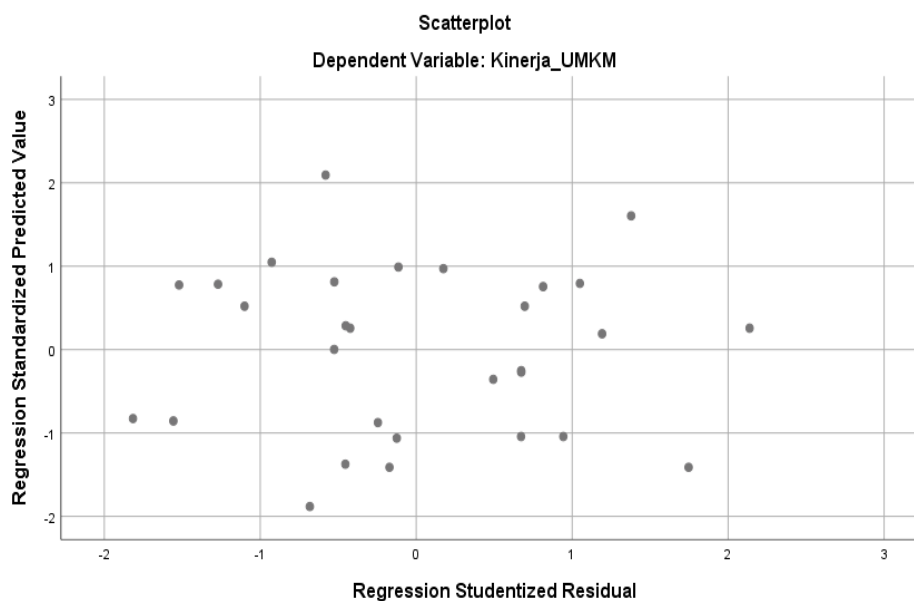
**Table 4.** Multicollinearity Test Results  
Coefficientsa

Model		Collinearity Statistics	
		tolerance	VIF
1	Financial_literacy	0.904	1.106
	Inclusion Financial	0.904	1.106

a. Dependent Variable: Performance\_UMKM  
Source: Primary data processed with SPSS v.25, 2023

Based on Table 4, it can be seen that the results of the multicollinearity test above show that none of the independent variables have a tolerance value of more than 0.10, which means that there is no correlation between the independent variables whose value is more than 95%, while the Variance Inflation Factor (VIF) value also shows the same thing. the same, that is, there are no independent variables that have a VIF value of less than 10. So it can be concluded that the regression model used in this study did not have multicollinearity.

**c. Heteroscedasticity Test**



**Figure 3.** Heteroscedasticity Test Scatterplot  
Source: Primary data processed with SPSS v.25, 2023

Based on Figure 3, the scatterplot shows that the points that have been generated are spread randomly and do not form a particular line pattern. The figure above also shows that the distribution of data is around the zero point. The results of this test indicate that this regression model does not have heteroscedasticity.

**Hypothesis testing**

**a. Partial Test**

**Table 5.** Partial Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	9,737	4.215		2,310	0.029
Financial_literacy	0.636	0.208	0.524	3,058	0.005
Inclusion Financial	0.523	0.195	0.420	2.118	0.007

a. Dependent Variable: Performance\_UMKM

Source: Primary data processed with SPSS v.25, 2023

Based on Table 5, it can be seen that the  $t_{count}$  value of the Financial Literacy variable  $>$  from  $t_{table}$  is  $3,058 > 1,697$  and the significance  $<$ alpha is  $0.005 < 0.05$ , meaning that Financial Literacy has a positive and significant effect on the performance of MSMEs in Kota Pari Village, PantaiCermin District, SerdangBedagai Regency. The  $t_{count}$  value of the Financial Inclusion variable  $>$  from  $t_{table}$  is  $2.118 > 1.697$  and the significance  $<$ alpha is  $0.007 < 0.05$ , meaning that Financial Inclusion has a positive and significant effect on the performance of MSMEs in Kota Pari Village, PantaiCermin District, SerdangBedagai Regency.

## b. Simultaneous Test

**Table 6.** Simultaneous Test Results

Model		ANOVAa				
		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	168,878	2	84,439	5.301	0.011b
	residual	430,089	27	15,929		
	Total	598,967	29			

a. Dependent Variable: Performance\_UMKM

b. Predictors: (Constant), Inclusion\_Financial, Literacy\_Financial

Source: Primary data processed with SPSS v.25, 2023

Based on Table 6, the results show  $F_{count} > F_{table}$ , namely  $5,301 > 2.53$ , while the significance  $<$  of alpha is  $0.011 < 0.05$ , indicating that simultaneously Financial Literacy and Financial Inclusion have a positive and significant effect on MSME performance in Kota Pari Village, PantaiCermin District, SerdangBedagai Regency .

## c. Coefficient of Determination (R2)

**Table 7.** Test Results for the Coefficient of Determination (R2)

Model		Summary modelb			
		R	R Square	Adjusted R Square	std. Error of the Estimate
1		0.631a	0.482	0.429	3.99114

a. Predictors: (Constant), Inclusion\_Financial, Literacy\_Financial

b. Dependent Variable: Performance\_UMKM

Source: Primary data processed with SPSS v.25, 2023

Based on Table 7, the R Square number is 0.482 or 48.2%. This shows that Financial Literacy and Financial Inclusion on the Performance of MSMEs in Kota Pari Village, PantaiCermin District, SerdangBedagai Regency is 48.2% while the remaining 51.8% is influenced by other variables not examined in this study.



## 5 Discussion

### 5.1 The Effect of Financial Literacy on MSME Performance

Based on the results of research analysis testing, that the  $t_{\text{count}}$  value of  $>$  from  $t_{\text{table}}$  is  $3,058 > 1,697$  and significant  $<\alpha$  is  $0.005 < 0.05$ , meaning that the Financial Literacy variable has a positive and significant effect on MSME performance in Kota Pari Village, Pantai Cermin District, Serdang Bedagai Regency. The success of MSMEs is strongly influenced by the skills and abilities of MSME actors. In an entrepreneurial process, three basic categories of capital are needed that contribute to a successful business, namely financial knowledge, financial attitude and personality. One category that is expected to contribute is financial knowledge, so that every MSME needs to pay attention to the knowledge of the human resources concerned related to financial management. Financial literacy helps MSMEs to acquire knowledge,

### 5.2. The Effect of Financial Inclusion on MSME Performance

Based on the results of research analysis testing, that the  $t_{\text{count}}$  value of  $>$  from  $t_{\text{table}}$  is  $2.118 > 1.697$  and significant  $<\alpha$  is  $0.007 < 0.05$ , meaning that the Financial Inclusion variable has a positive and significant effect on MSME performance in Kota Pari Village, Pantai Cermin District, Serdang Bedagai Regency. These results indicate that MSME performance will increase significantly if MSME actors continue to improve financial inclusion. Access obtained from financial institutions is needed in improving the performance of MSMEs and community participation in the economy. The level of performance of MSME actors can be influenced by the funds obtained by MSME actors obtained from financial institutions. Good financial inclusion allows MSME actors to develop their business which makes MSME performance develop.

### 5.3. The Effect of Financial Literacy and Financial Inclusion on MSME Performance

Based on the results of research analysis testing, that the  $F_{\text{count}}$  value of  $>$  from  $F_{\text{table}}$  is  $5.301 > 2.53$  and significant  $<\alpha$  is  $0.011 < 0.05$ , meaning that the variables Financial Literacy and Financial Inclusion have a positive and significant effect on the performance of MSMEs in Kota Pari Village, Pantai Cermin District, Serdang Bedagai Regency. These results indicate that the higher the level of financial literacy and financial inclusion that is understood and needed by the community, the higher the performance of MSME actors in the future. MSMEs who understand finance are able to make business performance better and make MSMEs experience business continuity.

## 6. Conclusion

For MSME actors, it is hoped that they will be able to maintain and increase knowledge about financial literacy and financial inclusion in order for this business to be better in the future and also to improve MSME performance for the future and MSME that are being run can compete in the wider business world.

For the government, pay more attention to MSMEs in terms of distributing funding assistance evenly so that MSMEs in Kota Pari Village can develop and be known to the national and international community.

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