International Journal of Social Sciences and Humanities
Available online at http://sciencescholar.us/journal/index.php/ijssh
Vol. 3 No. 1, April 2019, pages: 186~192
e-ISSN: 2550-7001, p-ISSN: 2550-701X
https://doi.org/10.29332/ijssh.v3n1.280

The Effect of Financial Literacy towards Financial Inclusion through Financial Training

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Article history: Received 9 August 2018, Accepted: 31 December 2018, Published: 27 April 2019

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Keywords

enterprises;
finance;
inclusive;
literacy;
MSMEs;

Abstract

The current study aimed to describe the influence of financial literacy on financial inclusion that mediated by financial training. It focused on *Micro, Small, and Medium Enterprises* (MSMEs). Respondents in the study were 54 respondents that were taken from 119 MSMEs in Kupang city, Indonesia. The analysis applied path analysis technique. It was to determine the direct or indirect relationship with *SPSS* Version 20. Analysis results have shown that financial literacy has got a direct and significant impact on financial inclusion. Its contribution to financial training is 33%. In the other side, the contribution of financial literacy towards inclusion is 32%. Furthermore, financial training has mediated the relationship between financial literacy and financial inclusion. The presentation is 11%. This phenomenon shows that in the future, it is necessary to increase the frequency of financial training for MSMEs actors in Kupang city, Indonesia. The training has to be conducted to increase financial inclusion in understanding the knowledge of the financial product. Since the current study only examined financial literacy, financial inclusion, and financial training, it is suggested that the future researches may examine other aspects such as transparency, accountability, and quality of financial statements.

Contents

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1. Introduction

Many financial products have been offered today (Pepinsky, 2013). This phenomenon requires the public to have financial intelligence, namely intelligence in managing personal assets. By implementing good and correct management methods, the community is expected to be able to get maximum benefits from the money they already have (Mosley & Hulme, 1998).

It is also known that the importance of financial literacy is not only beneficial for the community but also beneficial for financial institutions (Prete, 2013). When people understand the products of the financial industry, they will be compelled to buy one of their products. For example, insurance, bank loans, or saving money in a bank. People who originally kept their money by themselves, after having an understanding of the financial services, will save their money in the bank.

Mosley & Hulme (1998), state that the higher potential of financial transactions, the higher economic growth. Furthermore, the higher the potential of financial transaction, the higher distribution, and fairness of income can be created. By increasing public financial literacy, it is hoped that more people will save their money in the bank and use it for investment.

The level of financial literacy is influenced by several factors, including socio-economic status and lifestyle (Prete, 2013), the financial literacy index, based on the level of education that issued by the Financial Services Authority in 2014, has shown that those who graduated from universities have got the highest level of financial literacy that was 56.4%. Next, those who graduated from Senior High schools have got 35.7% of financial literacy, while those who have just graduated from primary school only have 24.6% financial literacy. The rest, those who have never studied in schools have only got 16.3% of financial literacy. This shows that the higher the level of a person's education, the better the financial literacy s/he has. The next factor that influences the level of financial literacy is income. In general, the higher income a person has, the higher level of financial literacy s/he has. It was possessed through the use of financial products. Families with high-income levels tend to use financial products such as deposits, insurance, property, and so on. Meanwhile, people with low-income levels tend to be financially literate through the use of low financial products. This is because they do not have enough income that can be invested. Thus, the higher the level of one's income, the better the level of financial literacy through the use of available financial products. The next aspect that affects financial literacy is the type of job. Someone's job determines the level of financial literacy. For example, working in a company with a good position tends to have good financial literacy, in which, it will utilize financial products and services in managing its finances (James, 2005).

In addition to financial literacy, financial inclusion is also considered important in increasing the number of *Micro, Small and Medium Enterprises* (MSMEs). Financial inclusion in Indonesia was launched in 2010 by Bank Indonesia with the aim of expanding public access to financial services. So far, 32% or 76 million people have not been touched by financial services, besides 60% - 70% of MSMEs in Indonesia also do not have access to banking. Almost 53 million poor people working in the sector MSMEs that have very large potential to reduce unemployment and reduce poverty (Sanjaya & Nursechafia, 2016).

Financial literacy and financial inclusion are also problems faced by 753 MSME entrepreneurs in Kupang City. The low information on MSMEs actors on financial management including planning, financial management, financial decisions, and limited information on financial access in obtaining business capital from the bank will raise problems in MSMEs industry (Klapper *et al.,* 2012). The aspects mentioned are problems experienced by MSMEs actors in Kupang City. Based on preliminary observations made on MSMEs in Kupang City, there are some obstacles, especially in the knowledge of Financial Literacy, so that the Financial Inclusion index in Kupang City is generally still very low. Various activities that have been carried out by various parties in terms of financial literacy to encourage financial inclusion have been carried out both by the banks, insurance, cooperatives, and other financial institutions. Financial training is one of the factors carried out to provide a better understanding of financial literacy. It is hoped to increase financial inclusion. Counting such issues described above, we conducted the current research. The scientific problems in this study are how financial literacy influences financial training and financial inclusion.

2. Materials and Methods

Financial Literacy

Amidjono *et al.,* (2016), argues that financial literacy is a series of processes or activities to improve the knowledge, competence, and skills of consumers and the wider community so that they are able to manage finances better. The similar statement was stated by Mason & Wilson (Krishna, 2010). Financial literacy is the ability of a person to obtain, understand, and evaluate information that is relevant for making decisions by understanding the financial consequences that result from it.

Huston (2010), states that financial literacy occurs when an individual has a set of skills and abilities that make the person capable of utilizing existing resources to achieve goals. According to Gilarso (2004), a lot of temptation of life has occurred and offered a luxurious life. As a result, people's income is always viewed as low income since they always use their whole money to buy everything.

Next, the results of the study conducted by Widayanti *et al.,* (2017), concluded that financial literacy had an effect of 28.9% on the sustainability of MSMEs for businesses. In contrary, Yushita & Amanita (2017), state that in general, the level of financial literacy is low in developed countries. Moreover, developing countries including Indonesia, face quite serious problems related to financial literacy. It shows that financial literacy has got a positive effect on inclusion as well as financial behavior. In accordance, Putri *et al.,* (2019), revealed that financial literacy has a positive and significant effect on investment decision making. The same thing was expressed by Aribawa (2016), who stated that good financial literacy would improve the performance and sustainability of MSMEs.

Hypothesis 1: Financial literacy influences financial inclusion

Financial Inclusion

Hendro *et al.,* (2014), state that financial inclusion is expanding access to banking services, especially for low-cost to rural communities. It includes improving the quality of the savings program, developing financial education, implementing *Financial Identity Number* (FIN) and conducting surveys of *financial literacy*.

Financial Training

Hendro *et al.,* (2014), state that training or providing financial technical assistance is aimed at improving the feasibility and capability of MSMEs. It improves banking expertise about MSMEs. Efforts are made by developing the real sector through five (5) main pillars, including 1) consumer education and protection; 2) mapping of financial information; 3) facilitation; 4) distribution channels; and 5) supporting regulations. Financial training can be done in several stages, including 1) national and regional cluster development; 2) providing technical assistance through socialization.

Rifa'i (2017), stated that the Community Financing Bank has managed to maintain and increase its capacity in providing access, channeling financing, and financial ratios to MSME actors. It was conducted through financial training. In accordance with Rifa'i (2017), Shalahuddinta (2014), state that the factors of financial education and training, work experience and learning in higher education are able to influence financial literacy. Purnamawati *et al.,* (2017), also state that financial training and assistance contributed 90% to the preparation of cash flow reports in managing cooperatives.

Hypothesis 2: Financial training influences financial inclusion
Hypothesis 3: Financial training mediates the relationship between financial literacy and financial inclusion

Based on theoretical studies and previous empirical studies, a conceptual framework model can be described in the following Figure 1.

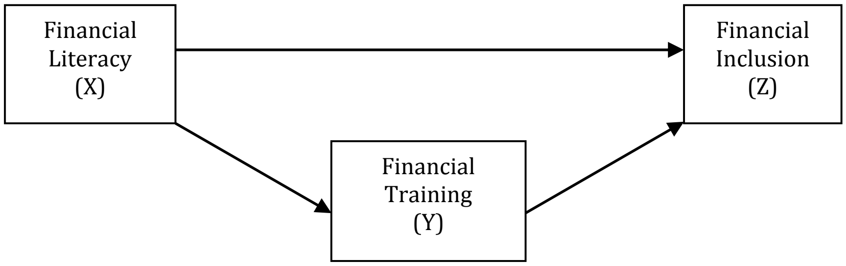

Figure 1. Research framework

Population and Research Samples

Population in this study was 119 respondents. Using the Slovin Formula with a precision of 10%, it was found that 54 MSME actors were subsequently referred to as respondents (Sugiyono, 2013).

Model of Measurement

Measurement of financial literacy in the current research applied measurements proposed by Chen & Volpe (1998); Mandell and Klein (2007). It included 1) general knowledge about finance, 2) savings and loans, 3) insurance, and 4) investment. Measurement of financial inclusion applied measurements that proposed by from Hendro *et al.,* (2014), including; 1) financial education and consumer protection, 2) financial information mapping, 3) facilitation, 4) distribution channels, and 5) supporting regulations. Measurement of financial training also applied measurements proposed by Hendro *et al.,* (2014). Next, models, in the current research, include; 1) improvement in ability to record finance, 2) increase in financial management capabilities, 3) increase understanding of financial institution products, and 4) use of financial institution products. The measurement scale uses an interval scale; 5 = strongly agree, 4 = agree, 3 = disagree, 2 = disagree and 1 = strongly disagree.

Analysis Tools

The analysis applied *path analysis* to examine the direct and indirect effects of financial literacy variables with financial inclusion through financial training with the assistance of the SPSS version. 20.

3. Results and Discussions

The results of the validity examination to each variable have shown several important points that described as follows. First, the financial literacy variable consists of 4 statement items. Their values are 0.304-0.555. Second, financial training variables, with reliability values of 4 statement items, have got reliability values between 0.491-0.27. Financial inclusion variables consisting of 5 statement items have reliability values between 0.439-0.587. Furthermore, all variables have greater values than the significance value of 0, 30. Whereas, reliability tests have shown that financial literacy variables have an average score of 0.598, while financial training variables have an average score of 0.784, and financial inclusion variables have an average score of 0.686.

The results have shown that there was a direct effect between financial literacy and financial inclusion on financial training. It was 0.33 (33%), while the direct effect of financial literacy on financial inclusion was 0.32 (32%). Furthermore, the effect of financial training on financial inclusion was 0.11 (11%). The phenomena have shown that financial training is able to mediate the relationship between financial literacy and financial inclusion. The better the financial training, the better the relationship between financial literacy and financial inclusion. This shows that hypothesis three is accepted.

Based on the analysis, some statements related to the hypothesis are described as follows. First, financial literacy has got a direct as well as a significant effect on financial inclusion. Second, financial training has got a direct as well as a significant effect on financial inclusion. Third, financial training is able to mediate the relationship between financial literacy and financial inclusion.

The results of the first study have shown that financial literacy has got an effect on financial inclusion. It is in accordance with the studies conducted by Widayanti, *et al.,* (2017), & Putri *et al.,* (2019). Thus, the first hypothesis is accepted and can be proven to be true that financial literacy influences financial inclusion. The second hypothesis is also accepted. It is stated that financial training has affected financial inclusion. The results of the current study are supported by the study conducted by Rifa'I (2017), Shalahuddinta (2014), & Purnamawati *et al.,* (2017).

4. Conclusion

Based on the discussion above, we conclude several things as follows. 1) The implementation of financial literacy in MSMEs at Kupang City, Indonesia has been very good, however, the Government of Kupang city has to provide good financial literacy by providing general knowledge about finance to MSMEs actors. 2) Financial literacy affects financial training. If financial literacy is improved, financial training, undeniable, will be better. 3) Financial literacy and financial training simultaneously have a significant effect on financial inclusion.

Some limitations of this study are; 1) We only examined financial literacy aspects mediated by financial training, 2) respondents in this study were only limited to micro and small scale business actors. It has not discussed medium-scale business actors who certainly have more systematic financial reports. Next, 3) transparent and accountability aspects must be considered. In other words, the transparency in the financial management of MSMEs actors in Kupang City needs to be studied more.

Furthermore, Kupang City Government, in this case, the Financial Services Authority, has to provide financial training for MSMEs actors to increase financial inclusion. By increasing the frequency of training, financial literacy will provide an increase in financial inclusion (Amidjono *et al.,* 2016). Future researchers may pay more attention to the frequency of training for MSMEs actors in Kupang city by focusing on the condition of the financial statements of each actor. Aspects of transparency and accountability of financial statements of each MSMEs actors should be considered by the Kupang City Government in order to improve the economy of MSMEs actors. Furthermore, access to banking services should be simply facilitated in order to increase actors' knowledge of economic progress.

Acknowledgments
This work was supported by the Research Fund provided by Politeknik Negeri Kupang, NTT- Indonesia. Therefore, herewith we offer our gratitude to the director of Politeknik Negeri Kupang, NTT- Indonesia.

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