



Research Paper

The Effect of Financial Literacy and Inclusion on the Performance of MSMEs in the Livestock Food Processing Industry in West Sumatera

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ABSTRACT:

West Sumatera has a variety of special foods that can be used as business opportunities for Micro, Small and Medium Enterprises. This study aims to determine the level of financial literacy and inclusion of SMEs in the animal food processing industry in West Sumatera (1) to analyze the effect of financial literacy on the performance of SMEs in the livestock food processing industry in West Sumatera (2) to analyze the effect of financial inclusion on the performance of SMEs in animal feed processing industry in West Sumatera (3). This study uses a survey method with a quantitative approach. The analytical tool used in this research is SEM PLS (Partial Least Square).

KEYWORDS: Financial Literacy, Financial Inclusion, MSME Performance, West Sumatera.

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I. INTRODUCTION

Small and Medium Enterprises (SMEs) make a high contribution to the increase in Gross Domestic Product (GDP) in Indonesia, based on data from the Ministry of Cooperatives and SMEs (2018) in 2017 SMEs accounted for 57.08% of Gross Domestic Product (GDP) and increased in 2017. in 2018 to 60.34% of Gross Domestic Product. According to Law Number 20 of 2008 SMEs are small and medium enterprises owned and managed by a person or owned by a small group of people with a certain amount of wealth and income.

Processing of livestock products dominates culinary SMEs in West Sumatera. Various kinds of livestock products that can be processed into sources of protein, namely: meat, milk, and eggs. People in West Sumatera mostly use the results of these livestock into processed foods that are very popular with the community. Various animal-based food businesses that are very popular in West Sumatera are rendang, beef jerky, skin crackers, salted eggs, pindang eggs, egg rendang, yogurt, kefir, cheese, mozzarella cheese and etc.

Most SMEs in West Sumatera were founded by business actors with relatively low education, this causes limitations in carrying out corporate financial management. The lack of knowledge of business actors regarding financial inclusion makes business actors have a negative impact on the business itself, such as the difficulty of accessing capital loans from various financial institutions that offer business capital loans, such as banks, leasing, insurance and others.

According to the 2019 National Survey of Financial Literacy and Inclusion, the province of West Sumatera is in seventh place out of ten provinces on the island of Sumatra. The literacy level in West Sumatera Province is 66.75 and the inclusion level is 34.55, this shows that knowledge about financial literacy and financial inclusion levels is still low in West Sumatera Province.

In addition to the Government Assistance for Micro Enterprises (BPUM) program, there is a program that has long been implemented by the government, namely People's Business Credit which can be accessed at several financial institutions. However, the difficulty of accessing capital loans from banks or other financial institutions has made many people still not accessing the assistance. This is due to a lack of knowledge about financial literacy to fulfill one of the administrative and technical requirements requested by financial institutions that cannot be fulfilled by SMEs so that the level of financial inclusion is low in the assistance offered through financial institutions.

The requirement that is considered the most difficult for business actors to fulfill is that not all SMEs have sufficient assets to be used as collateral. However, not all SME players are blind to all banking requirements, from a preliminary survey of several SME entrepreneurs processing livestock products such as rendang and leather cracker producers which are quite well known in the city of Padang, that they also use banking services in running their business. Therefore, it is necessary to study how much influence knowledge literacy and financial inclusion have on the success of SMEs processing livestock products.

The inability to access finance is also due to the lack of knowledge of business actors on how to optimize money for productive activities and also not having a good understanding of the various financial products and services offered by formal financial institutions commonly known as financial literacy. In addition, business actors also lack knowledge and confidence about financial service institutions regarding the characteristics, benefits, risks, rights and obligations related to banking products, for example credit and financial services such as accounts, demand deposits and others which can be commonly known as financial inclusion.

The limitations they face regarding financial literacy and inclusion make it difficult for Small and Medium Enterprises (SMEs) in West Sumatra to access capital from formal financial institutions. The large contribution of SMEs in West Sumatra creates many challenges for business actors to be ready to compete with other SMEs. SMEs are expected to be able to create new and different businesses, besides SMEs are also expected to have good performance. This is in accordance with the opinion of Abor and Quartey (2010), SMEs often experience delays in their development, this is due to various conventional problems that are not completely resolved such as problems of human resource capacity, ownership, financing, marketing and various other problems related to processing. business.

The results of MSME performance can be measured through a good business management mechanism by reviewing the composition of the recording of financial statements, According to Rapih, S., Martono, T., & Riyanto, G. (2015) the indicators of SME performance are sales growth, customer growth and Profit growth Performance can reflect the ability of the company's success or failure from time to time, therefore the need for a strategy to improve the performance of a company. Knowledge and skills in financial management, debt management, credit management and savings can help SMEs in making financial reports, good financial reports reflect good business conditions in a company.

This study aims to determine the level of financial literacy and inclusion of SMEs in the animal food processing industry in West Sumatra (1) to analyze the effect of financial literacy on the performance of SMEs in the livestock food processing industry in West Sumatra (2) to analyze the effect of financial inclusion on the performance of SMEs in animal feed processing industry in West Sumatra (3).

II. MATERIAL AND METHODS

Research material: Direct interviews with micro, small and medium enterprises in the livestock food processing industry

Research tools: The tools used are a questionnaire sheet and a set of stationery

Method: This research uses a survey method which is distributed to several areas in West Sumatra. This research was carried out for two months starting from June to August 2021

Observation variables:The variables observed in this study used qualitative data which was processed using the SEM PLS (Partial Least Square) analysis tool. The variables of this research consist of financial literacy, financial inclusion and MSME performance

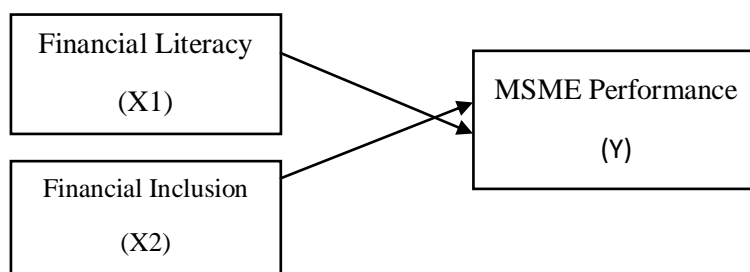


Figure 1. Research Concept

III. RESULT AND DISCUSSION

Characteristics of respondents in this study as follows:

Table 1. Characteristics of MSME Respondents in the Animal Food Processing Industry

Category	Information	Percentage %
Gender	Man	40
	Woman	60
Age	18-41	27
	42-65	73
Education	Elementary/junior high/high school	70
	D3/S1/S2/S3	30
Business Length	1-3 Years	6
	3-4 Years	16
	> 5 Years	78
Business income	Maximum Rp. 300 million	26
	> Rp. 300 million – IDR 2.5 billion	74
	> IDR 2.5 Billion – IDR 50 Billion	0

Source: Data processed 2021

Based on table 1, the gender that dominates micro, small and medium enterprises in the livestock food processing industry in West Sumatra is 30 women with a percentage of 60%. The age range of 42 to 65 years has the highest number of 37 people with a percentage of 73% in business actors. The level of education in micro, small and medium enterprises is still relatively low, this is based on table 3 that as many as 35 people are at the elementary / junior high / high school level. The number of businesses that have been running for more than five years has the highest number, which is 39 businesses or 78 percent. Based on table 5, with a turnover of Rp. 300 million to Rp 2.5 billion has a total of 37 businesses with a percentage of 74,

The level of financial literacy and financial inclusion in MSMEs in the food processing industry derived from livestock products in West Sumatra.

Table 2.

No	Variable	Score Range	Category
1	Financial Literacy	181	Medium
2	Financial Inclusion	178	Medium

Source: Data processed 2021

Based on the results of the distribution of respondents' responses to statements regarding financial literacy and inclusion in MSMEs in the livestock food processing industry in West Sumatra, which was given by researchers during interviews, the average score was obtained as table 6. In this study, the level of financial literacy was in the medium category. Financial literacy has supporting indicators such as financial literacy with dimensions of knowledge (financial knowledge), financial literacy with behavioral dimensions (Financial Behavior) and financial literacy with dimensions of attitude (Financial Attitude). The level of financial inclusion in MSMEs in the livestock food processing industry in West Sumatra is at a moderate level. According to Ari (2014) the level of financial inclusion in Indonesia is measured by three main indicators, namely account ownership, saving in formal financial institutions and borrowing from formal financial institutions. In this research This shows the low number of business actors using loan services by financial services as business capital or in developing their business, because the majority of business actors prefer to open a business or develop their business with minimal capital so that the average MSME in West Sumatra is still small.

PLS output analysis
Test the Measurement Model (Outermodel)
Validity Test
Convergent Validity

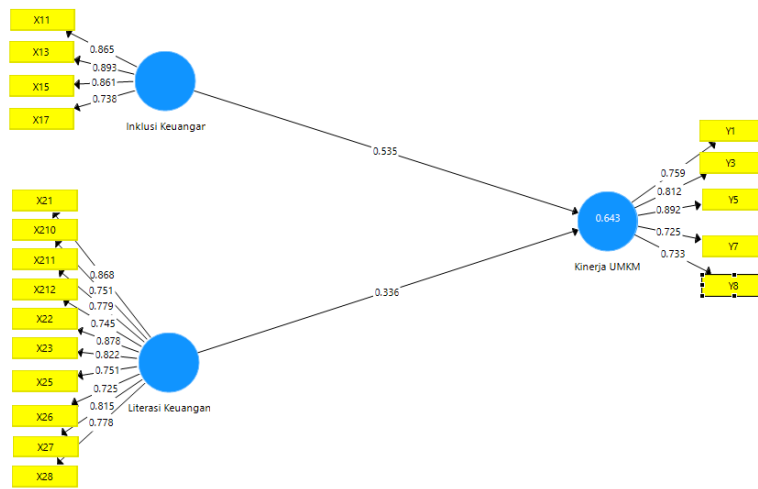


Figure 2. Display of the results of the PLS Algorithm SEM after respecification

In Figure 1, it has gone through respecification then the results of the PLS SEM algorithm process give results that are in accordance with the convergent validity test criteria on the measurement model (outer model). From the picture, it is obtained that the value of each outer loading is greater than 0.7. This can also be seen in the following table which shows the outer load value.

Table 3.
Output Outer Loading

Variable	Indicator	Loading Factor	Information
X1	X1.1	0.865	Valid
	X1.3	0.893	Valid
	X1.5	0.861	Valid
	X1.7	0.732	Valid
X2	X2.1	0.868	Valid
	X2.2	0.878	Valid
	X2.3	0.822	Valid
	X2.5	0.751	Valid
	X2.6	0.725	Valid
	X2.7	0.815	Valid
	X2.8	0.778	Valid
	X2.10	0.751	Valid
	X21.2	0.779	Valid
Y	Y1	0.759	Valid
	Y3	0.812	Valid
	Y5	0.892	Valid
	Y7	0.725	Valid
	Y8	0.733	Valid

Table 1 shows the value of the outer loading of each indicator on the variable. The results shown by the table can be declared to have convergent validity because each indicator has met the requirements for the outer loading value > 0.50. According to Jogiyanto and Abdillah (2015) that to assess convergent validity, the rule of thumb is usually used with the condition that the loading factor value must be more than 0.7. Meanwhile, the AVE value can be seen in table 2 below:

Table 4
Average Variance Extracted (AVE)

Variable	AVE	\sqrt{AVE}	Information
Financial Inclusion	0.708	0.841	Valid
Financial Literacy	0.629	0.786	Valid
MSME Performance	0.618	0.793	Valid

In table 2above, it can be seen that the AVE value for all variables means that each variable on Financial Inclusion (X1), Financial Literacy (X2) and MSME Performance (Y) has met the requirements of convergent validity. This means that the variable already represents the indicators in the block. In obtaining convergent validity, the AVE value must be greater than 0.50 or $AVE > 0.50$ (Umi et al, 2019).

Discriminant Validity

Cross Loading

On this test, the correlation value of the indicator to the construct must be greater than the correlation value between the indicator and other constructs. To test discriminant validity with reflexive indicators, it can be done by looking at the comparison of the cross loading values of each variable as shown in Table 3 below:

Table 5
Output Cross Loading

	X1 (Financial inclusion)	X2 (Financial Literacy)	Y (MSME Performance)
X1.1	0.865	0.836	0.604
X1.3	0.893	0.673	0.705
X1.5	0.861	0.529	0.510
X1.7	0.732	0.355	0.388
X2.1	0.626	0.868	0.583
X2.2	0.651	0.878	0.570
X2.3	0.555	0.822	0.560
X2.5	0.641	0.751	0.543
X2.6	0.503	0.725	0.558
X2.7	0.569	0.815	0.598
X2.8	0.489	0.778	0.558
X2.10	0.515	0.751	0.531
X2.11	0.432	0.779	0.523
X2.12	0.371	0.745	0.504
Y1	0.513	0.497	0.759
Y3	0.636	0.457	0.812
Y5	0.735	0.609	0.892
Y7	0.618	0.693	0.725
Y8	0.431	0.440	0.733

Table 3 shows that the correlation of financial inclusion indicators (X1) with the construct is higher, than the correlation with other constructs (financial inclusion and MSME performance). Likewise, financial literacy (X2) on other variables. The loading factor value for each indicator was found to be higher for the construct, when compared to the correlation between the loading factor value for the financial literacy construct (X1), and the MSME performance (Y).

Then for the performance of MSMEs (Y), the loading factor value of each indicator is also higher for the construct, when compared to the correlation of the loading factor value of the financial literacy construct (X1), and financial inclusion (X2). From the explanations above, it can be concluded that the latent construct predicts indicators in their block better than indicators in other blocks.

Reliability test (reliability test)

In this reliability test there are two tables that must be observed, namely the Composite Reliability and Cronbachs Alpha tables as shown below:

Table 6
Cronbachs Alpha and Composite Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Extracted Variance (AVE)	Information
Financial Inclusion	0.869	0.928	0.906	0.708	Valid
Financial Literacy	0.934	0.935	0.944	0.629	Valid
MSME Performance	0.845	0.860	0.890	0.618	Valid

Based on the results of data processing, it can be seen that the value of composite reliability and Cronbach's alpha of each construct exceeds 0.7. According to Ghazali (2016) the value of the rule of thumb on the composite reliability indicator > 0.7 and on the Cronbach's Alpha indicator > 0.6 This proves that the latent variables X1, X2 and Y have ideal or reliable reliability.

Structural Model Test (Inner Model)

R-Square

Table 7
R-Square

Variable	R Square
MSME Performance (Y)	0.643

The coefficient of determination uses R-square which shows some percentage of the variation of the independent or dependent variable that can be explained by the variables that are hypothesized to influence it. The higher the R-square of a variable, the better the model. To note, R-square is only found in endogenous constructs.

Table 5 can be seen that the R-Square value of the UMKM performance variable (Y) shows a number of 0.643. This shows that financial inclusion (X1) and financial literacy (X2) contribute to the performance of MSMEs (Y) as much as 64.3%. The rest is influenced by other variables outside this research model. However, R-square is not an absolute parameter in measuring the determination of the predictive model because the basis of the theoretical relationship is the most important parameter to explain the quality relationship (Abdillah and Jogiyanto 2015).

The whole of the evaluation of the structural model (inner model), which is a hypothesis test. Hypothesis testing is the relationship between constructs that is used as the basis for testing the hypothesis. Hypothesis testing can be done by looking at the results of the path coefficient table which is seen from the statistical significance value above the T-table value with (α 0.05: t-table 1.96). The results of the significant test will be explained as follows:

Table 6
Path Coefficient

	Original Sample (O)	Sample Average (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Financial Inclusion -> MSME Performance	0.535	0.522	0.079	6.785	0.000
Financial Literacy -> MSME Performance	0.336	0.354	0.084	3.991	0.000

The Relationship of Financial Literacy to MSME Performance

The relationship of financial literacy under study is financial literacy with the dimensions of knowledge, attitudes and behavior, then these aspects are analyzed for their relationship with the performance of MSMEs at $P < 0.05$. The table above shows the results of the relationship between constructs which state that financial literacy (X_2) has an effect on MSME performance (Y) with a parameter coefficient of 0.336 and significant at 0.05 (PValues, 0.000). This can also be proven by looking at the T statistic of 3.991 which has a value greater than the T table (T count 3.991 > T table 1.96). Thus, hypothesis 1 (one) in this study financial literacy has a positive effect on the performance of MSMEs.

The Relationship of Financial Inclusion to MSME Performance

Significant test results indicate that the results of the relationship between financial inclusion constructs (X1) have no effect on the performance of MSMEs (Y) with a parameter coefficient of 0.535 and significant at 0.05 (P Values, 0.055). This can be proven by looking at the T statistic of 6.785 which has a value greater than the T table (T count 6.785 > T table 1.96). Thus, hypothesis 2 (two) in this study, Financial Inclusion has a positive effect on MSME performance. This is in line with the results of Yanti's research (2019), which has the result that there is a significant influence between Financial Inclusion and MSME Performance, with the results of t-count > t-table where t-count is 2.119 and t-table is 1.96.

IV. CONCLUSION

Based on the results and discussion obtained from this research, it can be concluded that

1. At the level of Financial Literacy, MSMEs in the livestock food processing industry are at a moderate level. The level of financial inclusion for MSMEs in the animal feed processing industry is at a moderate level.
2. Financial literacy has a positive and significant effect on the performance of MSMEs with a t-count value of 3.991 > t-table 1.96. This shows that there is a significant increase in MSME performance if business actors continue to improve financial literacy
3. Financial inclusion does not have a positive effect on the performance of MSMEs with a t-count value of 6.786 > t-table 1.96. This shows that the increase in MSME performance is not influenced by financial inclusion.

V. RECOMMENDATION

1. This research still has limitations in each process. suggestions for the next research to expand in the number of samples more rice and a wider area in the next research.
2. For academics, this research is expected to serve as a reference for further research on financial literacy and financial inclusion on MSME performance. The author suggests that further research can add other variables so that this research

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