Research Paper

The Effect of Financial Inclusion and Financial Literacy on The Performance of MSMEs Batik Wonogiren
(Case Study on Batik MSMEs in Wonogiri Regency)

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Abstract

This study examines the effect of financial inclusion and financial literacy on the performance of Batik Wonogiren MSMEs. Wonogiren Batik comes from Wonogiri district, Central Java, Indonesia. The sample used in this study was 90 Wonogiren Batik MSMEs as respondents. The data collection method uses probability sampling techniques with questionnaires. The processed data was analyzed using multiple linear analysis techniques through the SPSS software program version 25.0 for Windows. The results of this study show that financial inclusion and financial literacy positively affect the performance of Batik Wonogiren MSMEs.

Keywords *Financial Inclusion, Financial Literacy, Performance of MSMEs*

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are economic activities carried out by most Indonesians to obtain income (Frima & Surya, 2018). To continue to grow, MSMEs must improve competitiveness and self-quality to increase MSME performance. Performance is a form of company achievement from various factors in a certain period that can be used as a basis for decision-making or improvement if the performance is less than optimal (Jannah et al., 2019). Kumalasari and Asandimitra (2019) suggest that the performance of MSMEs is the result or evaluation of the company's work achieved by a person or group with the division of activities in tasks and roles in certain periods with the company's standards. Performance is an important work result for the company with important goals such as organization, customer satisfaction and business improvement (Abiodun & Harry, 2015).

The development of MSME performance often encounters obstacles, namely the difficulty of measuring MSME performance (Farida et al., 2019). Many MSME entrepreneurs focus on operational activities without neat accounting records and ignore financial reporting. MSME entrepreneurs often lack knowledge about finance. One of the factors causing the failure of MSME entrepreneurs is the inability to account for and lack of information from inside and outside the business (Frima & Surya, 2018).

MSME development efforts require product or service services from financial institutions for several things, including capital, financial management and facilitating buying and selling transactions. The availability of various products and services from financial institutions that can be accessed according to the possibilities and needs and can be chosen to improve the welfare of its users is called financial inclusion (OJK, 2016). Implementing financial inclusion is one way to overcome MSME capital (Kusuma et al., 2021). Financial inclusion is the ability of certain parties to find and use financial institutions. This ability will affect how fast the business grows (Saputro et

al., 2022). The ability of MSMEs to understand and access financial institutions affects their business growth rate (Kusuma et al., 2021). Therefore, it can be concluded that financial inclusion is important for developing MSME performance.

MSME entrepreneurs also need the ability to manage finances in their business development. Individuals' ability to study, research, monitor, and communicate financial conditions will affect their well-being (Saputro et al., 2022). This ability is often referred to as financial literacy. Financial literacy is how individuals or communities understand how to manage their finances practically according to their needs and economic circumstances (Septiani & Wuryani, 2020). Yanti (2019) revealed that MSMEs must have the ability and knowledge of effective financial management, so financial literacy is crucial for every MSME.

This study used Batik MSMEs as respondents. Batik MSMEs were chosen as research samples because batik is a wealth of Indonesian culture that must be preserved. The existence of Batik MSMEs is also a concern of the Indonesian government. The diversity of Indonesian Batik motifs is the main attraction. One of the Indonesian batik motifs is Wonogiren Batik, originating from Wonogiri Regency, Central Java. This research is one of the efforts to find out what factors can help the development of the performance of Wonogiri Batik MSMEs so that it can be a reference for the development of Wonogiri Batik MSMEs.

LITERATURE REVIEW
MSME Performance

MSMEs' performance results from the work of certain parties over a certain period in accordance with their roles or responsibilities related to certain values or standards (Mutegi et al., 2015). Septiani and Wuryani (2020) revealed that performance is the ability of an organization to achieve predetermined goals. The performance of MSMEs is the result of a person's work over a certain period according to their role or responsibility and is related to certain values or standards (Mutegi et al., 2015). Robert S. Kaplan stated that the performance of MSMEs was analyzed using a balanced scorecard approach in measuring the performance of micro, small and medium enterprises, both in terms of financial and non-financial performance. Performance can be measured using a non-cost performance measure approach, where performance measurement is carried out using perception (Hilmawati & Kusumaningtias, 2021).

Financial Inclusion

Financial inclusion is a condition where every member of society can get a variety of high-quality official financial services at reasonable prices, in accordance with their needs and capabilities, in a timely, smooth, and safe manner. Shen et al. (2018) explain that financial inclusion provides broad access to financial services without price or non-price barriers and is a multidimensional, pro-client concept, including better access to products, services, and usage. Financial inclusion is a condition where every member of society can get a variety of high-quality official financial services at reasonable prices, according to their needs and capabilities, in a timely, smooth, and safe manner. As explained by the Reserve Bank of India in Anwar & Amir's (2017) research, financial inclusion is a way of ensuring that every community, from the general public to vulnerable groups such as low-income people, can get the financial products and services they need at fair and clear prices.

Financial Literacy

Financial literacy is knowledge, beliefs and skills that influence attitudes and attitudes to improve the quality of decision-making and financial management to achieve prosperity. Financial literacy is the ability of individuals to study, research, monitor, and communicate financial

conditions that affect their well-being (Saputro et al., 2022). According to Septiani and Wuryani (2020), financial literacy is the extent to which individuals or communities understand how to manage their finances practically in accordance with their economic needs and circumstances. Esiebugiel et al. (2018) stated financial literacy means education and understanding of various financial topics. At the heart of this idea is the ability to manage one's finances effectively and the knowledge necessary to make decisions about investing, insurance, real estate, college tuition, budgeting, retirement, and tax planning.

Hypothesis Development

The Effect of Financial Inclusion on MSME Performance

The community's economic growth is influenced by the expansion of micro, small, and medium enterprises (MSMEs), which offer many business opportunities. However, it is still difficult for MSME entrepreneurs to develop their businesses further due to capital difficulties. The lack of financial services, both formal and informal, limits the role of MSMEs (Bongomin et al., 2017). Yanti (2019) revealed that financial inclusion positively affects the performance of MSMEs. High financial inclusion will improve the performance of MSMEs (Sanistasya et al., 2019). Septiani and Eni (2020) stated that financial inclusion positively affects MSMEs' performance. Therefore, the following hypothesis is drawn:

H1: Financial Inclusion has a positive effect on the performance of MSMEs

The Effect of Financial Literacy on MSME Performance

Suryandani and Muniroh (2018) suggest that one of the strategic ways to improve MSME performance is financial literacy. Financial literacy is an important tool for SMEs to succeed, as it helps them understand and evaluate the information they need to make day-to-day decisions that affect a company's finances. Research by Sanistasya et al. (2019) explains that financial literacy positively impacts the sustainability and performance of MSMEs. High financial literacy in MSMEs will encourage the development of MSME performance (Miftahurrohmah et al., 2022). Some of the research mentioned above shows that understanding financial literacy is important for MSMEs because it allows people to make the right decisions about their money and reduces the possibility of being deceived in financial matters so that effective and efficient financial management can be realized. Based on this explanation, the following hypothesis can be drawn:

H2 : Financial literacy has a positive effect on the performance of MSMEs

RESEARCH METHOD

The study used quantitative methods. Quantitative methods are research methods based on the philosophy of positivism, used to examine certain populations or samples, data collection using research instruments, and quantitative or statistical data analysis to test the hypotheses set (Sugiyono, 2015). The study population is Wonogiren Batik MSMEs in Wonogiri Regency. The samples used in this study were Wonogiren Batik MSMEs located in the sub-districts of Tirtomoyo, Batuwarno, KarangTengah, Giritontro, Nadirojo, Wonokarto, Selogiri, Kismantoro, Wuryantoro, Pracimantoro, and Wonogiri. The total sample used in this study was 90 respondents.

Dependent Variables

MSME Performance

The performance of MSMEs is measured using the following dimensions and indicators.

Table 1. The dimension of MSME performance

Dimension	Indicator
Profitability	Monthly business sales improvement
	Business profits fluctuate every month
Business Growth	Growth in the number of sales
	Customer growth
	Growth in the amount of capital
	Develop marketing of products or services in the country
	Having consumers outside the area
Employee growth	Increase in employees due to more work
	Relatively absorb employees from the surrounding community

Independent Variables
Financial Inclusion

Financial Inclusion is measured using the following dimensions and indicators:

Table 2. The dimensions of financial inclusion

Dimension	Indicator
Financial availability or access	Strategically located financial institutions
	Know your financial services
	Financial services are easy to access
	Able to use financial facilities to meet the needs and manage finances in MSMEs.
	Using the Internet to access financial services
	Financial institutions create guidelines for how to access financial services
Welfare	MSMEs feel helped by financial services
	Affordable account maintenance costs
	Products or services provided by financial institutions increase revenue

Financial literacy

Financial literacy is measured using the following dimension and indicators:

Table 3. The dimension of financial literacy

Dimension	Indicator
Financial availability or access	Strategically located financial institutions
	Know your financial services
	Financial services are easy to access
	Able to use financial facilities to meet the needs and manage finances in MSMEs.
	Using the Internet to access financial services
	Financial institutions create guidelines for how to access financial services
Welfare	MSMEs feel helped by financial services
	Affordable account maintenance costs
	Products or services provided by financial institutions increase revenue

Validity Test

Validity testing is used to check respondents' answers worthy of use in this study (Sugiyono, 2015). The technique used is Pearson correlation, which compares the calculated t value with the table t value of each question item.

Reliability Test

The reliability test is used to determine the consistency of measurement results of measuring instruments used by the same person at different times or by different people at the same time or at different times (Yanti, 2019). This study used the value of the Cronbach Alpha coefficient, namely:
1. If the Alpha coefficient results > a significance level of 60% or 0.6, the questionnaire is reliable
2. If the Alpha coefficient results < a significance level of 60% or 0.6, then the questionnaire is not reliable

Multiple Linear Regression Analysis

This study uses multiple linear regression analysis, with MSME performance (Y) as the dependent variable and financial inclusion (X1) and financial literacy (X2) as independent variables. The multiple regression equation in this study uses the formula:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Hypothesis test

The hypothesis test shows how much the independent variable relates to the dependent variable. The test used a significance level of 0.05. If the value of sign < 0.05, the hypothesis is accepted. If the value of sign. > 0.05, hyphotesis is denied.

Test F

The F test is used to determine how much the independent variables (X1 and X2) affect the dependent variable (Y) together. This test is carried out by comparing the significance of the calculated F value> F table so that the formulated model is correct. If the F value is calculated > F of the table, then the regression model is considered correct.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) measures the extent to which the model can account for the variation of the independent variable (Ghozali, 2013). A small R^2 value means that the ability of the independent variable to explain the dependent variable is very limited. A value close to one means that the independent variable provides almost all the information needed to predict the variation of the dependent variable.

FINDINGS AND DISCUSSION

This study obtained a sample of 90 respondents. The survey with questionnaires was carried out in stages from March 15, 2023, to June 5, 2023.

Table 4. Characteristics of Respondents

Characteristic	Frequency	Presented
Gender		
Man	31	34.44%
Woman	59	65.56%
Age		
18 – 22 Years	-	-
23 – 27 Years	3	3.33%
28 – 32 Years	17	18.89%
33 – 37 Years	23	25.56%
>37 Years	47	52.22%
Education Level		
Junior High School	10	11.1%
Senior High School	41	45.56%
Diploma	7	7.78%

Bachelor/ Master	32	35,56%
Business Age		
Start-Up – 3 Years	12	13.33%
4 – 5 Years	32	35.56%
>5 Years	46	51.11%
Business Size		
Micro	85	94.45%
Small Business	2	2.22%
Medium Enterprises	3	3.33%
Position in Business		
Owner	84	93.33%
Manager	6	6.67%
Turnover per Month		
<IDR 25,000,000	81	90%
IDR 25,00,001 – IDR 50,000,000	8	8.89%
>IDR 50,000,000	1	1.11%

Source: Primary data processed 2023

Data Analysis
Validity Test
Table below shows that the 9-item statements are declared valid. This can be proven by the calculated r-value> r table, where the table r value is 0.205 (n = 90) with a significant value of 0.05). Thus the data can be used as a research instrument.

Table 5. Financial Inclusion Validity

Item	r Calculate	r Table	Result
X1.1	0.657	0.205	VALID
X1.2	0.853	0.205	VALID
X1.3	0.841	0.205	VALID
X1.4	0.898	0.205	VALID
X1.5	0.589	0.205	VALID

X1.6	0.515	0.205	VALID
X1.7	0.728	0.205	VALID
X1.8	0.710	0.205	VALID
X1.9	0.725	0.205	VALID

Source: Primary data processed 2023

Table 6. Financial Literacy Validity

Item	r Calculate	r Table	Result
X2.1	0.518	0.205	VALID
X2.2	0.660	0.205	VALID
X2.3	0.671	0.205	VALID
X2.4	0.726	0.205	VALID
X2.5	0.727	0.205	VALID
X2.6	0.716	0.205	VALID
X2.7	0.228	0.205	VALID
X2.8	0.492	0.205	VALID
X2.9	0.599	0.205	VALID
X2.10	0.720	0.205	VALID
X2.11	0.695	0.205	VALID
X2.12	0.752	0.205	VALID
X2.13	0.687	0.205	VALID
X2.14	0.644	0.205	VALID

Source: Primary data processed 2023

The table above shows that all 14 statements are valid. This can be proven by the calculated r value > r table, where the table r value is 0.205 obtained from the table value with n = 90 and a significant value of 0.05. Thus, the data can be used as a research instrument.

Table 7. Performance MSME Validity

Item	r Calculate	r Table	result
Y1	0.749	0.205	VALID

Y2	0.686	0.205	VALID
Y3	0.719	0.205	VALID
Y4	0.446	0.205	VALID
Y5	0.666	0.205	VALID
Y6	0.754	0.205	VALID
Y7	0.600	0.205	VALID
Y8	0.216	0.205	VALID
Y9	0.500	0.205	VALID

Source: Primary data processed 2023

The table above shows that 9 statements are declared valid. This can be proven by the value of r calculated > r table, where the value of r table is 0.205 obtained from the table's value with n = 90 with a significant value of 0.05. Thus, the data can be used as a research instrument.

Reliability Test

Table 8. Reliability

Variable	Cronbach Alpha *Value*	r Calculate	Result
Financial Inclusion(X_1)	0.887	0.6	RELIABLE
Financial Literacy (X2)	0.885	0.6	RELIABLE
Performance of MSMEs (Y)	0.771	0.6	RELIABLE

Source: Primary data processed 2023

The table above shows that all Cronbach alpha values are greater than 0.6. Therefore, it can be concluded that the data tested in this study is reliable or consistent so that it can be used as a research instrument.

Multiple Linear Regression Test

Table 9. Multiple Linear Regression

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sign.
	B	Std.Error	Beta		
(Constant)	8.182	1.923		4.255	.000

Financial Inclusion (X$_1$)	.258	.061	.326	3.784	.000
Financial Literacy (X$_2$)	.327	.051	.556	6.459	.000

Source: Primary data processed 2023

Based on the regression results in the table above, the regression equation can be known as follows:

$$Y = 8.182 + 258X_1 + 0.327X_2 + e$$

The results of the multiple regression equation above can provide the following understanding:

a.   A constant value of 8.182 means that if financial inclusion and financial literacy are assumed to be 0 or ignored, then the performance value of MSMEs (Y) is 8.182.

b.   The value of the regression coefficient of the financial inclusion variable (X1) is positive 0.258, meaning that if the financial inclusion variable (X1) increases by one unit while other independent variables are assumed to be fixed, the MSME performance variable will increase by 0.258.

c.   The value of the regression coefficient of the financial literacy variable (X2) is positive, which is 0.327, indicating that if the financial literacy variable (X2) increases by one unit while other independent variables are assumed to be fixed, then the MSME performance variable will increase by 0.327.

Hypothesis Test

The results of hypothetical testing based on Table 9 above are as follows:

H1: Financial Inclusion Positively Affects MSME Performance

Based on the table above, it can be seen that the value of t-calculate the financial inclusion variable is 3.784, where t-calculate > t table (3.784 > 1.984) with a significance value of 0.000 < 0.025. So, **H1 is accepted**, so it can be concluded that financial inclusion has a significant positive effect on the performance of MSMEs.

H2: Financial literacy has a positive effect on MSME performance

Based on the table above, it can be seen that the value of t-calculate the financial literacy variable is 6.459, where t-calculate the table > t (6.459 > 1.984) with a significance value of 0.000 < 0.025. So, **H2 is accepted**, so it can be concluded that financial literacy has a significant positive effect on the performance of MSMEs.

Test F

Table 10. F Test

Model	Sum of Squares	df	Mean Square	F	Sign.
Regression	750.695	2	375.347	87.424	.000
Residual	373.527	87	4.293		
Total	1124.222	89			

Source: Primary data processed 2023

Based on Table 10 above, the results of the f test show that the value of f is calculated as 87.424 with a significance of 0.000. Because the significance level is smaller than 0.05, the regression model can be said that financial inclusion and financial literacy have a joint effect on financial performance. It can be interpreted that this research model is feasible.

Coefficient of Determination (R^2)

Table 11. Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.817	.668	.660	2.07206

Source: Primary data processed 2023

Based on Table 11 above, the coefficient of determination is found in the Adjusted R Square value of 0.660. This means that all independent variables in this study are able to explain the relationship and influence on the dependent variable by 66%, the remaining 34% are influenced by other variables outside the research model.

Research Results

The Effect of Financial Inclusion on the Performance of MSMEs

Financial inclusion has a significant positive influence on the performance of MSMEs. More financial inclusion has a good effect, namely improving the performance of MSMEs. The relationship between financial inclusion and MSME performance shows that the higher the level of financial inclusion, the higher the MSME performance. The ease of access and use of financial services for MSMEs encourages increased performance.

The Effect of Financial Literacy on the Performance of MSMEs

Financial literacy has a significant positive influence on the performance of MSMEs. Good financial literature has an impact on improving the performance of MSMEs. Knowledge of financial literacy supports the ability of MSMEs to manage finances. Good financial management will encourage the improvement of MSME performance. With a high level of literacy, MSMEs can achieve various financial goals as part of their business arrogance. For example, saving, managing debt properly, running a business, and forth. MSME actors need financial literacy in their business to avoid problems with their money in the future.

CONCLUSIONS

This research is a replication of research conducted by Yanti (2019). This study examines the effect of financial inclusion and financial literacy on performance. The results showed that financial inclusion and financial literacy positively affected the performance of MSMEs. From the results of the study, it was concluded that the performance of MSMEs can be improved by the availability of ease of accessing financial products and services. In addition, increasing the ability to manage money will also improve the performance of MSMEs.

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