INCLUSIVEFINANCE AND FINANCIAL LITERACY
(Study On Small Medium Enterprises (SMEs) In East Java)

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The role of banks as a source of economic financing in Indonesia still dominates the system of financial institution that reached 90%. The research of World Bank has conducted a study related to financial inclusion in a format called Global Financial Index (Global Findex) in 2012 revealed "only 32% of Indonesian has access to banking". This access can be interpreted in function to the purpose of saving. The purpose of this research: (1) Financial access mapping that includes sector deposits and financing, Small and Medium Enterprises (SMEs) in East Java and (2) Mapping the needs of SMEs on deposit services and financing. Whereas on the second year, the research objectives to be achieved are: (1) Financial literacy for the science development about the financial problem for SMEs and (2) Build model of inclusive financial systems for SMEs.

The sample in this research is the Small and Medium Enterprises (SMEs) which is incorporated in the SMEs centers that contained 10 regencies/cities in East Java, it is about 250 SMEs. The primary data source is the SMEs in East Java by collecting data with Interview,Structured Questionery, observation, and field notes. Secondary data collection carried out on agency and institution which is associated with the issue of inclusive finance. The analytical method used is descriptive analysis.

The study concluded that (1) SMEs produce consumer goods (consumer goods), especially those that are not durable , (2)Establishment of SMEs more through the concepts of production (3),the level of financial literacy in the SMEs still low (4) The model of inclusive financial development, especially in micro, small and medium enterprises (SMEs) in Phase I is how to build trust, with the increasing perception that financial services (banking) within reach of the public, especially SMEs, Phase II has aim to create a financial well literate, and Phase III more pressure on sustainability.

Keywords: Inclusive Finance and Financial Literacy

INTRODUCTION

The role ofbankas a sourceof economic financingin Indonesia still becomes crucial, remember the dominance of bank from thesystemof financial institution thatreached 90%. However, depend on research of World Bank has conducted a study related tofinancial inclusionin aformat calledGlobalFinancialIndex (Global Findex) in 2012 revealed "only 32% of Indonesian has access to banking". This access can be interpreted in functionforthe purpose ofdepositandloan. This condition encouragesthe proliferation ofgrowthof non-formal financial institutionor it commonly called as middlemen/moneylendersin rural area. (Source: WorldBank, 2011).

Several studies conducted by the World Bank in various countries reveal that the involvement financial sector (inclusive financial) play an important role in poverty reduction, reduce income disparity community, and stimulate economic growth. In Indonesia, Bank Indonesia expects throughinclusivefinanceprogramis expected to reducethe dominance ofthe moneylenderinremote area. According Banking Law, the function of bank is to collect and distribute fund to the productive sector in order to help in achieving the development goal. However, as these functions still need to be optimized, so that a number of the fund raised can be increased distribution to the appropriate sector (productive) proportionally.

Financial inclusion is essentiallyall effortsaimed atnegatingall forms ofbarriers toaccess tothe public in usingfinancial service. Based on World Bank research various countries implement financial inclusion in effort to poverty reduction, reduce income disparity community, and stimulate economic growth. In Indonesia, formulation ofa nationalstrategyfinancial inclusionwaslaunched earlyin 2013, with the aim ofachievingeconomic welfarethroughthe reduction ofpoverty, income distributionandthe stability ofthe financialsysteminIndonesiabycreatinga financialsystemthat can be accessedby the whole society.

Regardless of the various causes of limited access to the banking community, the current data banking indicate that the credit portfolio banking is still not optimal, especially in the SMEs sectors. Since the 1998-2013 the proportion of SMEs loan recorded still not changing with the growth rate is still below 20% (yoy). On the other hand, the level of consumer lending remained above growth of investment credit as well as working capital loans. This phenomenon raises the question of the businessmen who feel that banks are too focused on consumer lending and rule out credit investment as well as working capital loan. On the other hand, the business of SMEs admitted difficulty in accessing bank credit for their business development, while the procedure and requirement for consumer loan seem so quick and easy.

From the macroeconomic point of view, lending focused on consumptive financing also will not be profitable in the long term. Consumption activities can indeed boost economic growth but give no sustainable competitiveness. Activities that excessive consumption can weaken the economic structure of the country where the products are consumed obtained through import.

LITERATURE STUDIES

According to financial inclusion book (2014), Inclusive Finance (Financial Inclusion) is any effort made to eliminate all forms of barriers faced by people in using financial service. The financial inclusion is also a national strategy to promote economic growth through equitable distribution of income, poverty reduction, and stability of the financial system.

Financial inclusion is a multi-disciplinary concept and consists of some components; all of them are relevant with development agenda in a country. Bank Indonesia (2014) regards that in order to know what extent the process financial inclusion development is needed a performance measures. Bankable Frontier Associates (2010) generally defining financial inclusion complexity in four components, as follows (diagram 1) :

Demirguc-Kunt (2005) states that the development of society access to financing service sector not only pro growth but also pro poor, reduce income inequality and poverty. Studies in several countries show that the countries that have formal financial system is robust and efficient able to reduce the level of income inequality and poverty rates relatively quickly. A degree of Financial Inclusion in a country reflects the complexity between demand and supply in the country's financial market. In order to establish the financial sector in accordance with the request, would be required a deep understanding about the necessary of the community, innovations appropriate and well targeted, and strong regulation.

Family funding is chosen by SMEs as an alternative due to several factors. The first factor is the SMEs access to formal credit institutions are still lacking. Insani (2013) cites the opinion Mudrajad (2006) states that the low access of small industries to formal credit institutions cause they tend to rely their business financing on their own capital or other sources such as family, relatives, middlemen, and even moneylender. Now, the interest rate is a factor inhibiting SMEs access to banking and the banking system, next factor is a risk derived from family funding is smaller than the formal funding. Because it sometimes in a family funding there are no requirements given where it can reduce the risk, like the risk of return. (Insani, 2013)

The successes of national development, one of them is marked by the formation of a stable financial system and provides benefits to all levels of society. In this case, financial institution play an important role through the intermediary function to promote economic growth, equitable income distribution, poverty alleviation, and the stability of the financial system. However, the rapid development of the financial industry is often not matched by access to adequate financial service. In addition, access to financial service is one of the basic prerequisites for the community to be involved in the economic system in a region.

Public access to financial service in Indonesia are categorized as moderate compared to other developing countries. Public access to financial service in Indonesia is relatively better than the two emerging giant countries, India and China, but lower than Thailand, Malaysia, and South Korea. This means there are many opportunities to make the financial system more inclusive and provide social advantages. Access to financial service is a complex problem that includes the public as consumer and financial institution as producer. It requires a multi-dimensional approach to improve access to the financial institution.

In economic development in Indonesia, banking plays an important role as an engine of activity financial inclusion because Indonesian bank have a share of 80 percent of activity in the financial market in Indonesia. However, financial inclusion is not only the task of Bank Indonesia, but also the Government in order to open up access to financial service to the broadest community.

In order to encourage the usage of financial service development by the public, it is needed a policy to: solve market failure caused by asymmetric information and abuse of power; encourage financial service innovation in order to minimize the fund that covered by consumer and producer; also give financial education and safety to consumer so the society can choose financial product that appropriate with their necessaries and avoid losses. The government can decrease the effect of market failure and encourage financial inclusion by building a legal framework and appropriate regulation, supporting the development of the business climate, promoting healthy competition and fair, as well as facilitating a kind of business schemes in order to encourage financial inclusion.

The progress of technology promises for the expansion of financial inclusion in a country. The fund of transaction can be resistor in financial inclusion when supplier of financial service get loses because of give service to consumer with low income. Technology innovation, as mobile banking, internet banking, and debit card/credit are able to help minimize the fund of transaction in financial system. However, the aim of technology innovation for financial inclusive development would greatly depend on the level of financial sector development, market size, income structure and social.

METHODOLOGY

This study is explorative-descriptive. The population of this study is district/city in East Java as many as 38 districts/cities. Sample of this study is district/city in East Java, sampling technique used in this study is purposive sampling with consideration of to the category as industrial area. District/city as location of the study as many as 10 (ten) districts/cities that are 1. Sidoarjo District, 2. Mojokerto City, 3. Jombang District, 4. Malang City, 5. Batu City, 6. Malang District, 7. Pasuruan District, 8. Probolinggo District, 9. Gresik District and 10. Lamongan District. After that, the respondent is the person/owner of business who is located in small industry of ten districts/cities.

In this study, data collection is conducted randomly on SMEs in each of the center of small industry in the district / city respondent taken as many as 25 SMEs, thus the total number of respondent is 250 respondents. The primary data is SMEs in East Java with data collection through interview, Structured Questionery, obsevation, and Focus Group Discussion (FGD). Secondary data collection is conducted in agency and institution associated with the issue of financial inclusion.

RESULT AND DISCUSSION

Based on the findings of the Financial Services Authority (FSA) in 2013 found that only 21.8 percent of Indonesia are classified as well financially literate. Well literate is a person who has knowledge of the products and services of financial institutions, including understanding the risks, rights and obligations, as well as having the skill to use the products and services of financial institutions. Constraints on the demand side that the other is in the form of income levels are relatively low, particularly in rural areas, which makes not necessarily their excess income (after consumption) which can be accumulated into savings. Even if there are, about whether the excess income amount is feasible or not a problem that should not be overlooked. These facts which if become latent obstacle in accelerating the expansion of access and deepening of the financial sector in Indonesia

In general, businesses in the Micro, Small and Medium Enterprises (SMEs) has been doing financial administration although still modest (money in and out) finance companies have not been separated with the family finances, not to create cash flow and balance sheet business. Understanding of the investment is still lacking. especially on these indicators. In order for the implementation of the program to be sustainable, persuasively needs to be invested in SMEs understanding that business credit is given is not a free gift, but must be returned with a certain interest rate. That is, there is an inherent obligation of granting the credit. Which of these obligations will be able to be as good as they are able to process business loan obtained with effort and hard work. SMEs need to be made aware of the sympathetic way that the provision of credit in the future will be largely determined on the willingness and their ability to repay credit. In other words, increase or not their quality of life will be greatly affected by its access to capital. Awareness of life, or guarantee the survival of this, by Muhammad Yunus, is said to be far more important than any collateral.

In general, in the Micro, Small and Medium Enterprises (SMEs) has been doing financial administration although still simple finance companies modelhave not been separated with the family finances, dcash flow and balance sheet. Understanding of the investment is still lacking. Particularly that indicators. Likewise, the people residing in areas with low financial inclusion index can be said still has no personal financial behavior is good or not been able to manage personal finances wisely.

In indicator budget, described by several items, namely a daily budget, monthly budget and financial planning decisions. Someone with a good personal financial behavior means it has been able to either make budgeting (budgeting) in their daily activities. The budgeting done daily or monthly basis. he was also able to properly think through the cook in a plan-financial planning will be decided (realized) in some of the future .Someone with the financial behavior that is not good will tend to use in ways that short if they are in the financial position of urgency. Even sometimes using moneylenders who actually it is really central will make a miserable financial condition in the future.

CONCLUSION AND SUGGESTION

According to the result and discussion, it can be concluded that the result of this study as follows:

1. Trainees are perpetrators of Micro, Small and Medium Enterprises (SMEs) in an effort to increase financial literacy (financial literacy) has a characteristic, that the majority of SMEs produce consumer goods (consumer goods), especially those that are not durable, and had access to banks in terms of capital requirements; funding of business.
2. Establishment of SMEs more through the process of production concept where SMEs through venture to manufacture products that SMEs capable of production, so the market is still limited. Started the business with the concept of production, the majority of SMEs do not know clearly the target market, because it has no market analysis capabilities.
3. In the financial model development inlusif through three phases, namely Phase I is the phase of building trust between the Bank with SMEs. Phase II is the certainty which the bank must provide certainty easyservices and uncomplicated as well as pro-active with the needs of SMEs and phase III is educationwhere the Bank should be able to educateSMEs that feseable not bankable become feseable bankable and grow.

Suggestion

1. The Government simplify business licensing for SMEs
2. Actors SMEs must have the mind set that relate to the Bank is important
3. Perpetrators of SMEs to continue to improve business management
4. The Government of SMEs seek to create partnerships with other businesses

The government should help promote SME products with various parties

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