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# Effect of Financial Literacy and Access to Capital on the Growth of Micro, Small, and Medium Enterprises

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**Received:** 03 June 2023

**Accepted:** 19 August 2023

**Published:** 02 October 2023

**Abstract:** *This study aims to determine and analyze effect of financial literacy and access to capital on the growth of Micro, Small, and Medium Enterprises. This study applies a quantitative research design. Population in this research is Micro, Small, and Medium Enterprises in Medan City. Sampling technique used purposive sampling with a sample of 50 respondents from Micro, Small, and Medium Enterprises in Medan City. Testing the hypothesis in this study using multiple linear regression. The results show that financial literacy has a positive and significant effect on the growth of Micro, Small, and Medium Enterprises. Access to capital has a positive and significant effect on the growth of Micro, Small, and Medium Enterprises.*

**Keywords:** *Financial Literacy, Capital, Growth, Micro, Small, and Medium Enterprises.*

## 1. INTRODUCTION

Money is a medium of exchange that cannot be separated from student life. It can be said that money is a medium of exchange that is really needed in today's modern life, from children to adults, money is really needed to fulfill their needs and desires. Therefore, financial intelligence is something that needs attention in modern life like today. Financial intelligence

is a person's ability to manage their financial resources with the ultimate goal of financial well-being (Sangadji and Sopiah, 2013).

Some experts also mention the function of money as a means of delaying payments. In conclusion, money is an object that is generally accepted by society to measure value, exchange, and make payments for the purchase of goods and services, and at the same time acts as a means of hoarding wealth.

In the current era of globalization, good economic growth is an assessment of the government's success in carrying out development, including in the economic aspect, the government makes and supports programs with the concept of populist economy. Micro, Small, and Medium Enterprises are the basis of the people's economy. Micro, Small, and Medium Enterprises have an important role in the Indonesian economy under the Ministry of Cooperatives and Micro, Small, and Medium Enterprises.

According to Bank Indonesia, there are at least 3 important roles for Micro, Small, and Medium Enterprises, especially in the lives of small communities, namely:

- A means of alleviating society from poverty, the main reason is the high rate of employment by Micro, Small, and Medium Enterprises. This is proven in the creation of new jobs to absorb the workforce.
- A means to level the economic level of small people, in contrast to large companies, Micro, Small, and Medium Enterprises have locations in various places. The existence of Micro, Small, and Medium Enterprises in Indonesia has narrowed the economic gap between the poor and the rich.
- Provide foreign exchange income for the country.

Empowerment of Micro, Small, and Medium Enterprises in the midst of globalization and high competition makes Micro, Small, and Medium Enterprises must be able to face global challenges. This is necessary given the relatively large contribution of labor absorption from Micro, Small, and Medium Enterprises, whose numbers dominate other sectors in Indonesia.

There are several problems that are commonly faced by small and medium entrepreneurs such as limited working capital and investment capital, difficulty obtaining raw materials of good quality and affordable prices, limited technology, good quality human resources (management and production techniques), market information, as well as difficulties in marketing (Sartono, 2001).

Capital problems for Micro, Small, and Medium Enterprises result in Micro, Small, and Medium Enterprises having difficulty in increasing their business capacity or developing products that can compete. Most of Micro, Small, and Medium Enterprises have not been sufficiently touched by the services of formal financial institutions or banks. According to data from Bank Indonesia in 2017, around 60-70% of Micro, Small, and Medium Enterprises have not received access or financing from banks. Even though Micro, Small, and Medium Enterprises have a proportion of approximately 90% of the total number of Indonesian business actors or around 56.54 million business units. So that quite a few Micro, Small, and

Medium Enterprises are forced to utilize the services of traditional microfinance institutions, even though they carry quite burdensome burdens and risks in order to maintain the survival of their businesses.

A Micro, Small, and Medium Enterprises shows the effectiveness of its business through optimal business growth, nitially seen from the types of products offered which are oriented towards benefits and innovation, after that the sales volume that Micro, Small, and Medium Enterprises are able to sell, the number of employees owned up to the level of profit obtained. It is hoped that the measurement of business growth carried out by Micro, Small, and Medium Enterprises will be able to be more competitive in providing useful products or services to society because they can be more efficient in producing goods and promoting them. Business operations that run smoothly will be able to pay debts or loan interest as a means of capital (Husnan and Pudjiastuti, 2006).

Micro, Small, and Medium Enterprises, which make up 90% of business actors in Indonesia, generally do not have the ability to understand the knowledge and skills to manage financial resources to achieve prosperity.

This study aims to determine and analyze effect of financial literacy and access to capital on the growth of Micro, Small, and Medium Enterprises.

## **Literature Review**

### **Financial Literacy**

Financial literacy is a combination of awareness, knowledge, abilities, attitudes, and actions necessary to make economic decisions to achieve individual financial well- being. Financial literacy is knowledge and understanding of financial concepts make effective economic choices, improve individual, group financial well-being, and lives. Financial knowledge helps a person avoid financial problems. Financial knowledge enables people to better manage their finances. This is inseparable from the support of financial institutions that support public financial management and carry out activities that utilize existing financial institution programs, such as financing and lending. Micro, Small, and Medium Enterprises in managing their finances also need to know financial literacy to avoid financial risks (Sangadji and Sopiah, 2013).

### **Capital**

Capital is a collection of funds that can be used and allocated by a company where these funds are obtained from long-term debt and own capital. Another definition suggests that capital is a mixture or collection of debt, preferred stock, and own capital used to raise capital (Salvatore, 2005). Capital is meeting long-term funding needs through debt and equity. Capital structure is a collection of funds originating from debt, shares and own capital that can be used and allocated by the company.

## **Growth**

Growth is expressed as total asset growth where past asset growth will describe future profitability and future growth (Machfoed, 1996). Growth is the change (decrease or increase) in total assets owned by the company. Growth is calculated as the percentage change in assets at a given time against the previous year. Growth is the change in total assets in the form of increases or decreases experienced by the company during one period. Growth describes the growth of company assets which will influence the company's profitability which believes that the percentage change in total assets is a better indicator in measuring company growth. The measure used is to calculate the proportion of increase or decrease in assets. In this research, company growth is measured by the proportion of changes in assets, to compare the increase or decrease in total assets owned by the company.

## **2. RESEARCH METHODS**

This study applies a quantitative research design. Quantitative research design is an approach that uses data in the form of numbers in statistical analysis (Ferdinand, 2006). This research aims to find the influence of certain variables on other variables. Based on the level of explanation of the position of the variables, this research is causal associative, namely research that looks for causal relationships or influences, namely independent variables or variables that influence (X) the dependent variable, the variable that is influenced (Y).

According to Ghozali (2016), population is defined as a generalized area consisting of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions. Population in this research is Micro, Small, and Medium Enterprises in Medan City. According to Sudirman et al. (2022), sample is part of the population which is a member of a group that is part of the population so that it has population characteristics. Sampling technique used purposive sampling with a sample of 50 respondents from Micro, Small, and Medium Enterprises in Medan City.

Testing the hypothesis in this study using multiple linear regression. Multiple linear regression is an analysis used to analyze the dependence of one dependent or dependent variable on one or more independent or explanatory variables, with the aim of estimating and/or predicting the average value of the dependent variable based on the known values of the independent variables (Sutagana et al., 2022). Testing the regression results is carried out using the *t*-test at a degree of confidence of 95% (Novalia and Syazali, 2014).

## **3. RESULT**

### **Development of Micro, Small, and Medium Enterprises**

In an effort to build a people's economy, the President of the Republic of Indonesia has given directions to carry out the development of Micro, Small, and Medium Enterprises Upgrading and Modernizing Cooperatives. The role of Micro, Small and Medium Enterprises is very large for Indonesia's economic growth, with their number reaching 99% of all business units.



The contribution of Micro, Small and Medium Enterprises to GDP also reaches 60.5%, and to employment is 96.9% of the total national employment absorption. The condition of local Micro, Small and Medium Enterprises had declined in the first two years of the Covid-19 pandemic, namely in 2020-2021. Based on a survey from UNDP and LPEM UI which involved 1,180 respondents from Micro, Small, and Medium Enterprises, it was found that at that time more than 48% of Micro, Small, and Medium Enterprises experienced raw material problems, 77% had decreased income, 88% Micro, Small, and Medium Enterprises experienced a decrease in product demand, and even 97% of Micro, Small, and Medium Enterprises experienced a decrease in asset value.

The strategic policies implemented by the Government include the National Economic Recovery Program (PEN), implementation of the Job Creation Law and its derivative regulations, as well as the Proudly Made in Indonesia (BBI) program.

The PEN program itself includes the Micro, Small, and Medium Enterprises Support program, including in the field of KUR financing during the pandemic, Micro Business Productive Assistance (BPUM), Non-KUR Interest/Margin Subsidies, Placement of State Funds/Placement of Money, Micro Credit Guarantee, Small, and Medium Enterprises, Investment financing to cooperatives through LPDB KUMKM, Micro, Small, and Medium Enterprises Final Income Tax (PPh) borne by the Government, as well as Cash Assistance for Street Vendors, Stalls and Fishermen (BTPKLWN).

According to data from the Indonesian Joint Funding Fintech Association (AFPI), in 2020 here were around 46.6 million out of a total of 64 million Micro, Small and Medium Enterprises in Indonesia that did not have access to capital from banks or non-bank financial institutions. The financing obstacles experienced by Micro, Small and Medium Enterprises are the basis for the iGovernment to provide support for other financing facilities, including through partnership and environmental development programs (PKBL), Mekaar PNM, Micro Waqf Bank, Ultra Micro Financing (UMi), and Credit People's Enterprise (KUR).

This financing scheme can be accessed by Micro, Small and Medium Enterprises according to their class in line with the development of the Micro, Small and Medium Enterprises business level. Since January 19 2022, the KUR scheme consists of KUR Super Micro, KUR Micro, KUR Small, KUR Special, and KUR PMI. Especially for KUR Super Micro and KUR Micro, no additional collateral is required.

The development of Micro, Small and Medium Enterprises Credit itself continues to increase and NPLs continue to be maintained stable. Micro, Small and Medium Enterprises credit continued to increase until it reached IDR 1,275.03 trillion or grew 16.75% (yoy). NPL remains maintained at around 4%, where the latest position in April 2022 was recorded at 4.38%, lower than the same period last year which was at 4.41%.

However, this increase is considered still far compared to several other countries such as Singapore (41%), Thailand (41%), and China (60%). So, the export contribution target of Micro, Small, and Medium Enterprises is expected to increase to 17% in 2024.

The total export contribution of Micro, Small and Medium Enterprises increased from 14.37% in 2020 to 15.69% in 2021. One effort to increase the competitiveness of SMEs is by

taking advantage of opportunities for integration into the global market through the Global Value Chain (GVC) and Global E-Commerce (GEC). The integration of Micro, Small, and Medium Enterprises into GVC can be carried out in the form of indirect exports through domestic aggregators or foreign affiliated companies.

Thus, the challenges for Micro, Small and Medium Enterprises in the future that must be addressed together by all relevant stakeholders include, among others, those related to innovation and technology, digital literacy, productivity, legality or licensing, financing, branding and marketing, human resources, standardization and certification, equal distribution of coaching, training and facilitation, as well as a single database.

### **Hypothesis Test**

Testing the hypothesis in this study to determine whether the regression model is feasible to use and whether the independent variables are significant in the model.

Table 1. Hypothesis Test

<b>Variable</b>	<b>Coefficient</b>	<b>Prob.</b>
Financial Literacy	0.512	0.001
Capital	0.127	0.000

Dependent Variable: Growth

Source: Research Results (2023)

The results show that financial literacy has a positive and significant effect on the growth of Micro, Small, and Medium Enterprises.

Access to capital has a positive and significant effect on the growth of Micro, Small, and Medium Enterprises.

## **4. CONCLUSION**

The results show that financial literacy has a positive and significant effect on the growth of Micro, Small, and Medium Enterprises. Access to capital has a positive and significant effect on the growth of Micro, Small, and Medium Enterprises.

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