

The Effect Of Financial Inclusion On Umkm Performance (Case Study Of Kota Pari Village)

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Abstract

The purpose of the study is to analyze the influence of financial inclusion on the performance of MSMEs in Kota Pari Village which has good enough potential to develop. Micro, small, and medium enterprises (MSMEs) contribute to reducing unemployment, poverty, equitable development and community income. However, MSMEs also experience obstacles in the development process. One of the common problems faced is the limitations of working capital, technology, production, marketing and business operations, and the quality of human resources. This will have an impact on performance if economic entities cannot manage their finances properly. To improve the performance of MSMEs, loan assistance from financial institutions is needed so that MSMEs can develop and be sustainable. Improving business financial management in order to facilitate loan repayment and develop the capital owned in order to take advantage of existing opportunities and increase business turnover and profits. This effort will certainly be realized soon if the level of financial inclusion of MSMEs is high enough. The research sample is the owners and managers of MSMEs in Kota Pari Village as many as 80 respondents. This study uses a quantitative method. The data collection method uses a *non-probability sampling technique* using a questionnaire. The data analysis techniques used are descriptive analysis of percentages, instrumental tests, and hypothesis tests. The instrument test consists of a validity test and a reliability test. The hypothesis test consists of a simple regression, a partial test (t-test) and a partial determination coefficient (r^2). Based on the results of the research that has been carried out, it is known that financial inclusion has an effect on the financial performance of MSMEs in Pari City, this is strengthened by the results of hypothesis tests obtained with a sig. 0.000 that is declared to have a positive effect.

Keywords:

Public Facilities; Village Funds; Social Infrastructure; Community Welfare;
Household Productivity



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Introduction

Financial inclusion has become an increasingly important global agenda in recent years, after the COVID-19 pandemic that accelerated the digitalization of financial services. In Indonesia, efforts to increase financial inclusion continue to be encouraged as part of the national economic recovery strategy and the achievement of the Sustainable Development Goals (SDGs). Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy, contributing more than 60% of GDP and absorbing more than 97% of the workforce. Based on data from the Financial Services Authority (OJK) as of 2023, the financial inclusion rate in Indonesia has reached 85.10%, a significant increase from 76.19% in 2019. The disparity in financial inclusion between urban and rural areas remains a major challenge. The COVID-19 pandemic has forced many MSMEs to adapt quickly to digital platforms. Data from the Ministry of Cooperatives and SMEs shows that by the end of 2023, around 19.5 million MSMEs have gone digital. However, there are still many MSMEs, especially in rural areas such as the village of Kota Pari, who face difficulties in this digital transformation. The Government of Indonesia has launched several recent initiatives to encourage financial inclusion and strengthen MSMEs:

1. The "One Village, One Lecturer" program, which was launched in early 2024, aims to increase financial and digital literacy in villages.
2. Expansion of the KUR (People's Business Credit) program with lower interest rates and a higher ceiling for 2024.
3. Implementation of an integrated MSME Financial Information System (SIKUMKM), facilitating MSMEs' access to various financial services.

Kota Pari Village, as a representation of rural areas in Indonesia, faces several specific challenges:

1. Uneven digital infrastructure affects access to digital financial services.
2. Low financial literacy among local MSME actors.
3. Limited types of financial products and services that suit the needs of local MSMEs.
4. Lack of understanding of the benefits of financial inclusion for business growth.

Despite facing challenges, the village of Kota Pari also has great potential:

1. The wealth of natural resources in the form of stretches of beaches that can be developed into superior MSME products.
2. Beach tourism that can encourage a high entrepreneurial spirit among the younger generation.
3. Support from local governments, universities and private parties in the development of the MSME ecosystem.

Methods

1. Research Approach and Design



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The research was conducted in the village of Kota Pari, Pantai Cermin district, Serdang Bedagai district. Data collection uses primary data and secondary data, with a survey method on primary data. The focus of the research is to measure the relationship between financial inclusion and MSME performance at a specific time point.

2. Type of Research

The data analysis method used in this study is a qualitative method. The questionnaire in this study uses the *Likert* scale approach. The data collected from the results of the questionnaire distribution will be processed and analyzed with the aim of becoming new information and knowledge. The analysis tool used in this study is a simple linear regression analysis using SPSS (*Statistical Product and Service Solutions*) data processing tools. Before simple linear regression, a classical assumption test is carried out first.

This research is a quantitative research that aims to measure and analyze the relationship between the variables studied.

3. Data Quality Test

Data quality tests are carried out to ensure that the research instruments used are valid and reliable. This data quality test includes validity test and reliability test. Validity tests are conducted to ensure that each question item in the questionnaire actually measures the intended concept. In this study, the validity test was carried out using the Confirmatory Factor Analysis (CFA) method with the help of SPSS software version 25. Reliability tests were conducted to measure the internal consistency of the research instruments. In this study, the reliability test was carried out using Cronbach's Alpha method.

4. Descriptive Analysis and Measurement of Financial Inclusion Levels

Descriptive statistics are statistics used to analyze data by describing or describing MSE data in Kota Pari Village. This analysis will describe the characteristics of the respondents and describe the variables of financial inclusion and MSME performance. In addition, it can also describe the level of financial inclusion.

5. Classical Assumption Test

The classical assumption tests carried out include the normality test to test whether in the regression model, the perturbing or residual variables have a normal distribution, the multicollinearity test to test whether the regression model finds a correlation between independent variables, the heteroscedasticity test, and the autocorrelation test.

6. Simple Linear Regression

In this study, a simple linear regression analysis was carried out to determine the influence of financial inclusion (X) on the performance of MSMEs (Y)

7. T Test (Partial Test)

The t-test is a test that conducts a test on how far an independent variable affects individually in explaining the independent variable. The partial hypothesis is explained in statistical form as follows:

$H_0 : \beta_1 = 0$, There is no effect of financial inclusion on the performance of MSMEs

$H_a : \beta_1 \neq 0$, There is an effect of financial inclusion on the performance of MSMEs

Furthermore, the results of the t-count hypothesis are compared with the table with the following conditions:

If t_{table} is counted, H_0 is accepted and H_a is rejected If $t_{count} > t_{table}$, H_0 is rejected and H_a is accepted.



8. Determination Coefficient Analysis (R²)

The determination coefficient (R²) measures how far the model is able to explain variations. The values of the determination coefficient are zero and one. A small R² value means that the ability of independent variables to explain dependent variables 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.

Results

Based on the results of the tests that have been carried out, it is known that financial inclusion has a positive effect on the performance of MSMEs, the results of the study can be concluded that the higher the level of financial inclusion, the higher the performance of MSMEs. If there is a decrease in the level of financial inclusion, it can reduce the performance of MSMEs. This is supported by the results of a significance value of $0.000 < 0.05$ which means that financial inclusion has an effect on the performance of MSMEs. The result of the calculation is greater than the table $4,396 > 1,665$, meaning that H₀ is rejected and H_a is accepted. So this shows that financial inclusion in the city of Pari has a positive and significant influence on the performance of MSMEs. Based on the results of the t-test (partial) on the financial inclusion variable, a significance result of $0.004 < 0.025$ was obtained. From this, it can be concluded that financial inclusion has a positive effect on the performance of MSMEs in Pari City Village, so that H₁ is accepted. Increasing financial inclusion will have a good impact on the performance of MSMEs in Pari Serdang Bedagai City Village.

The influence of financial inclusion on the performance of MSMEs shows that the better financial inclusion, the higher the level of MSME performance. And vice versa, the lower the financial inclusion, the lower the level of financial performance. This is because financial inclusion is one of the aspects needed to increase capital for MSME actors in improving and developing their businesses. Based on the t-value calculated on the financial inclusion variable of 2.251 with a profitability of 0.027 less than 0.05. The table with a significance level of 0.05 and a degree of freedom (df) for $df=n-2$ or $100-2=98$, then the table is 1.9845. The results are $t_{count} (2.251) > t_{table} (1.9845)$. This shows that H₀ is rejected and H_a is accepted so that the financial inclusion variable has a significant effect on the performance of MSMEs because the level of significance of financial inclusion is less than 0.05. This research shows that with ease of using and obtaining services and access to finance, it will be easier for MSME actors to improve business performance so that the level of welfare of MSME actors will also increase in tandem. The influence of financial inclusion on the performance of MSMEs in Kota Pari Village is an interesting topic to discuss. Financial inclusion can be an important factor in increasing the growth and sustainability of MSMEs in Kota pari Village. By

increasing MSMEs' access to financial services such as loans , savings, and insurance, small business actors can reduce risks and improve the welfare of MSMEs.

Discussion

From the results of the study, it can be clearly concluded that research on the influence of financial inclusion on the performance of MSMEs in Pari City reveals several important things as follows:

1. Financial inclusion has a significant role in improving the performance of MSMEs by providing wider access to financial services such as credit, savings, and insurance. This condition helps MSMEs to expand operations, increase productivity, and stimulate innovation in their businesses. In addition, the involvement of MSMEs in financial inclusion can strengthen their role as the backbone of the economy in the City of Paris, increase their contribution to local economic growth, as well as strengthen the national economy as a whole.
1. The Inclusion Program can achieve a very maximum positive impact, if it is important for the government and other stakeholders to continue to encourage policies and programs that support financial inclusion for MSMEs, as well as increase financial literacy among small and medium business actors. This study observes and highlights the importance of financial inclusion in supporting the growth and sustainability of MSMEs in the City of Pari, as well as providing a foundation for the development of more effective policy strategies in the future. The results of the research with the case study of the village of Pari City can be a role model from other villages in other regions in Indonesia.

Conclusion

1. The Financial Inclusion Rate of 38 percent indicates the proportion or percentage of the population that has access to financial services in a certain region or population. With this percentage, it can be concluded that the level of financial inclusion in the region or population is relatively low, because it is below the threshold of 60 percent which is usually used as a standard for the low category. This means that the majority of the population does not yet have adequate access to financial services, such as bank accounts, credit, or insurance. A low level of financial inclusion can indicate various obstacles or obstacles in accessing financial services, such as limited financial infrastructure, lack of financial literacy, or high costs of financial services. As a result, many individuals or households may face difficulties in managing their finances, accessing financing for businesses, or protecting themselves from financial risks. To increase the level of financial inclusion, continuous efforts are needed from various parties, including



governments, financial institutions, and non-governmental organizations. Steps that can be taken include the provision of more affordable and accessible financial services, financial literacy education and training to the public, as well as supportive regulations to protect consumers and encourage innovation in the financial sector. With increasing financial inclusion, it is hoped that wider opportunities for inclusive and sustainable economic growth can be created.

2. The results of data processing and statistical analysis show the influence of financial inclusion on the performance of MSMEs in Pari City. From the significance level value obtained of 0.000 (lower than 0.05) and the comparison between the calculated t-value (4.396) and the table t-value (1.665), we can conclude that the null hypothesis (H_0) is rejected and the alternative hypothesis (H_a) is accepted. So it can be concluded that H_0 states that there is no relationship between financial inclusion and MSME performance, while H_a states that there is a relationship between the two variables. With H_0 rejected, we accept H_a , which shows that the financial inclusion variable has a significant influence on the performance of MSMEs in the City of Pari. Thus, these findings confirm that the higher the level of financial inclusion
3. The model summary presents the Adjusted R Square value from the results of statistical analysis in the study. The Adjusted R Square value of 0.188, or equivalent to 18.8 percent, shows how well the variables in the research model are able to explain the variation in the dependent variable, namely the performance of MSMEs. In this context, the Adjusted R Square value of 0.188 shows that around 18.8 percent of the variation in MSME performance can be explained by the financial inclusion variable that is the focus of the research. This indicates that financial inclusion has a significant contribution in explaining the variation in MSME performance. However, the remaining 81.2 percent were influenced by other factors that were not investigated in this study. These factors can include other variables that are not included in the analysis model, as well as other external and internal factors that may affect the performance of MSMEs but are not considered in this study. Thus, although financial inclusion has a significant impact on the performance of MSMEs, there is still most variation in MSME performance that cannot be explained by financial inclusion variables alone. This shows the complexity and multifactoriality of determining MSME performance, and highlights the importance of considering other factors in an effort to improve the performance and sustainability of MSMEs.

Suggestion

The results of the analysis and conclusions above provide some suggestions that can be conveyed as follows:



1. For Academics.

This research has the potential to be an important reference for future studies related to financial inclusion in the performance of MSMEs. It is suggested that future studies can expand the scope of the variables studied to improve the understanding of the factors that affect the performance of MSMEs more comprehensively. In addition to the variables that have been investigated in this study, further research can consider additional factors such as social, cultural, or environmental factors that can also affect the performance of MSMEs. In addition, academics are expected to play an active role in supporting the increase in financial inclusion among MSMEs. They can play a role in providing education and training on financial management to MSME actors, as well as providing the advice and guidance needed in financial management to improve business performance. Through collaboration between academics, practitioners, and the government, it is hoped that efforts to increase financial inclusion among MSMEs can be improved, so that MSMEs can become more resilient and competitive in facing complex economic challenges.

2. For the Government:

This research highlights the low level of financial literacy among MSMEs in the city of Paris, which is a major concern in efforts to improve economic welfare and competitiveness at the local level. It is important for the government to increase its role in improving people's financial literacy, especially among MSMEs. Steps that can be taken include providing guidance to MSMEs about the benefits and financial service facilities available for business development. Thus, MSMEs can better understand and utilize financial services that can support their business growth and stability.

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