

Will Digitalization Affect the Financial Inclusion of MSME Actors?

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Abstract

Financial inclusion is an important issue to discuss because it can create a mechanism to support economic development and growth. Financial inclusion benefits related institutions such as banks as well. In the 4.0 revolution era, many types of services emerged, creating an opportunity. However, low financial inclusion can also be a threat. Previous research has shown that when compared to the main ASEAN countries, Indonesia's financial inclusion is still at the bottom of the median, and it is lower than India and Bangladesh when compared to other countries. This phenomenon demonstrates the importance of encouraging financial inclusion. This study aimed to find out the application of financial inclusion to MSME players in Bandung City, as MSMEs are the backbone of the economy. The research method employed was descriptive (score) with primary data in the form of questionnaires distributed to 56 respondents who meet purposive sampling criteria. The results of the study show that the financial inclusion of MSME actors in Bandung City is categorized as good, indicating that financial institutions have had a positive impact on MSME actors.

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1. Introduction

Financial inclusion is an effort to ensure that all people have access to and benefit from financial services. It is characterized by easy access, a diverse range of financial products, and low costs, allowing mechanisms to be formed and economic development to be promoted (Babajide et al., 2015). Furthermore, financial inclusion plays an important role in strengthening the country's financial infrastructure to support development and economic growth, with research findings indicating a positive relationship between economic growth and financial inclusion (Sharma, 2016). The role of financial inclusion makes this important to know. Besides, financial inclusion also helps banks maintain operational stability. Based on a banking standpoint, financial inclusion contributes to banking stability by reducing the marginal cost of making services with the opportunity to collect retail deposits at a low cost (Ahamed & Mallick, 2019). Even today, the

4.0 revolution has given rise to various digital-based financial services. This progress represents an opportunity for the economy to grow through increased financial inclusion.

Various threats can emerge when the country's level of financial inclusion is low. Low access to financial services is a threat to economic progress, particularly in developing countries, both for farmers and for people who are classified as inferior (Garg & Agarwal, 2014). Akudugu (2013) in his study in Ghana, stated that many individuals still do not have a bank account, while 40 percent of the population is involved in the financial sector. Likewise in Zimbabwe, a study conducted by Kairiza, Kiprono, dan Magadzire (2017) shows that the level of inclusion in formal finance is generally low, although there are statistical exceptions for women entrepreneurs. Most Asian and African countries also have lower levels of financial inclusion than developed countries like Europe and North America, where people can expe-

rience higher levels of inclusion (Wang & Guan, 2017).

Similar outcomes have occurred in Indonesia, where one of the success factors in developing finance is access to finance. The results show poor financial access performance, with 66 percent of respondents stating insufficient financial conditions, putting Indonesia in a lower median position and on par with Germany and Australia, despite being one of the main ASEAN countries (Setiawan, 2016). In line with these results, a comparison of account ownership in several countries is shown in the following table:

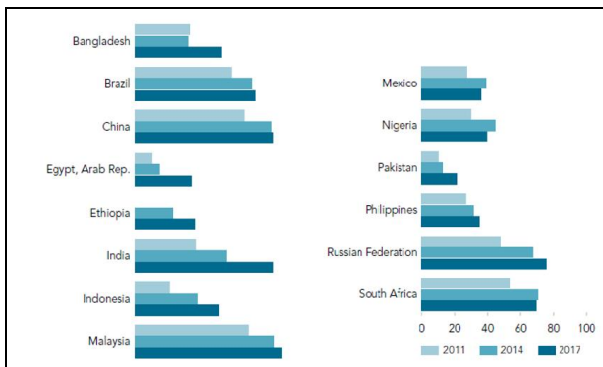


Figure 1. State Account Ownership in 2011, 2014, and 2017 (Adult accounts in percent)

Source: Demirguc-Kunt, Klapper, Singer, Ansar, dan Hess (2018).

According to the figure 1, account ownership in Indonesia increased between 2014 and 2017. This increase reflects efforts to improve financial inclusion. Nonetheless, Indonesia is still trailing Malaysia, China, Brazil, Russia, North Africa, India, and Bangladesh in terms of financial inclusion, implying that more efforts must be made to catch up.

Encouraging financial inclusion is important because the impact can be felt by MSME actors, who contribute significantly to the Gross Domestic Product (GDP). The significant contribution to economic development demonstrates the potential for MSMEs to become the economic backbone (Mata Garuda (Ikatan Alumni dan Penerima LPDP), 2018). Financial inclusion acts as a decisive mediator in encouraging the success of SMEs, with the hope that the response of economic actors will increase and can provide prosperity and narrow gaps (Riwayati, 2017). Through all the explanations above, the author wishes to describe the application of financial inclusion to MSME actors, given that its imple-

mentation has a major impact on the success of MSMEs and economic development in general.

2. Data and Methods

The descriptive method is used to describe how financial inclusion benefits MSME players' business activities. Primary data in the form of questionnaires were distributed to MSME actors in Bandung City to support the research, and secondary data related to the research was also used. Questionnaires were distributed to 56 respondents who met the purposive sampling criteria, which included Bandung business locations classified as micro, small, and medium enterprises, and cooperative in providing information. The ability to access and use quality financial services, as well as receive benefits from them, is one of the variables measured by Bongomin, Munene, Ntayi, dan Malinga (2017) and Bongomin, Ntayi, Munene, dan Nkote Nabeta (2016). Four Likert scales are used in measuring variables to eliminate neutral answer choices that w to be impartial on positive (agree) or negative (disagree) results, resulting in a tendency to disagree. Giving item scores with intervals between 1 to 4 is done to avoid respondents who frequently select neutral answer choices (Sampoerno, 2021). In descriptive research, categorization was carried out based on the stages that had been formed based on the steps recommended by Rachman dan Muchsin dalam Rahayuningsih (2013) resulting in the categorization in the descriptive analysis as follows:

Table 1. Categorization in Descriptive Analysis

Percentage	Categorization
81.25% < 100.00%	Very Good
62.50% < 81.25%	Good
43.75% < 62.50%	Less Good

Source: Data proceed by Authors

The research questionnaire has been tested for reliability and validity. The test results show that the questionnaire has fulfilled the reliability and validity tests. So that the questionnaire can be used for use.

The Cronbach's alpha value obtained in Table 3 is 0.899. The value is said to be reliable at Spearman-Brown if it is greater than 0.60 (Bahri & Zamzam, 2014) indicating that the instrument's results are reliable.

3. Result

The questionnaire was distributed to 56 respondents consisting of 35.71 percent of male respondents and 64.29 percent of female respondents with an age distribution of 48.21 percent of respondents ranging in age from 20 to 29 years; 28.57 percent aged 30 to 39 years; 19.64 percent are age range of 40 to 49 years; and 3.57 percent are in the range of 50 to 59 years. According to the level of education, 10.71 percent of respondents had a high school diploma, 25% had a diploma, 50% had a bachelor's degree, and the remaining 14.29 percent had a master's or doctoral degree. When viewed from the business category, respondents were dominated by micro businesses (83.93 percent), followed by small businesses (8.93 percent), and medium businesses (7.14 percent) with 50 percent of businesses engaged in the food and beverage sector, 25 percent in the fashion sector, 14.29 percent in the service sector, 7.14 percent in handicraft sector, and 3.57 percent in convection. Of the 56 research respondents, the business target for the middle class dominated by 82.14 percent, followed by the target for the lower class at 12.50 percent, and 5.36 percent of respondents targeted their business at the upper class. Based on the level of sales generated, 76.79 percent of respondents had sales between 100,000 to less than 37,575,000; 7.14 percent on sales between 37,575,000 to less than 75,050,000; 10.71 percent on sales between 75,050,000 to less than 112,525,000; and the rest are not willing to give an answer.

There are four indicators with nine statements proposed so that the following results are obtained (Tabel 2).

Table 2. Financial Inclusion Analysis Results

Statement	4	3	2	1	Total	%
Ability to access financial services.						
I feel that available financial services	12	20	16	8	56	
like digital finance are safe and affordable.	48*	60*	32*	8*	66.07%**	69.64
I feel that opening an account is easy.	9	28	16	3	56	
Having financial services	36*	84*	32*	3*	69.20%**	
	15	26	12	3	56	
	60*	78*	24*	3*	73.66%**	

Statement	4	3	2	1	Total	%
Statement like digital finance makes it easier for me to reach or access financial institutions.						
Ability to use financial services.						
I feel the service products provided are appropriate for the needs.	11	35	9	1	56	
The terms and conditions for using services are aspects that make it easy and profitable for me.	44*	105*	18*	1*	75.00%**	73.21
Quality of financial services.						
Products such as sav-ings/loans /financial services provided are suitable for me.	11	29	13	3	56	
I feel that products such as sav-ings/loans /financial services provided are safe.	44*	87*	26*	3*	71.43%**	67.19
Benefits obtained when using financial services.						
The finan- cial ser- vices available enhance my ability to grow.	9	28	12	7	56	
The avail- able finan- cial ser-	36*	84*	24*	7*	67.41%**	74.33
	12	27	14	3	56	
	48*	81*	28*	3*	71.43%**	
	17	30	6	3	56	
	68*	90*	12*	3*	77.23%**	

Statement	4	3	2	1	Total	%
vices make it easier for me to increase access to financial services.						
Total Score						70,93*
The Highest Score						74,33
The Lowest Score						67,19

Source: Data proceed by authors

* Calculation of the number of respondents who chose the answer multiplied by the answer score.

** The total number of calculations in the calculation (*) divided by the number of statements multiplied by the number of respondents, and the highest score.

*** Total number of respondents who chose a particular answer multiplied by the score of each answer divided by the total number of statements multiplied by the number of respondents, and the highest score.

Financial inclusion is measured by its ability to access services, and a value of 69.64 percent indicates that the financial inclusion of MSME actors in the City of Bandung is categorized as good. The predominance of respondents agreeing on statements of available financial services such as safe and affordable digital finance, easy account opening, and digital financial services that make it easier to reach or access financial institutions with a respective percentage of 66.07 percent, 69.20 percent, and 73.66 percent demonstrates a good assessment of this indicator. The highest score is the ease of access to financial institutions, while the lowest score is financial services such as digital finance, which are considered safe and affordable. Based on these findings, it was discovered that MSME actors in the city of Bandung have been able to access financial services and have no reservations about the financial services provided, both in terms of cost, security, and ease of reaching financial institutions and opening accounts.

Financial inclusion is measured by the ability to use financial services, with a score of 73.21 percent indicating that financial inclusion is related to MSMEs in Bandung City's ability to use good financial services. The predominance of respondents' agreed answers to the statements that services are available according to needs and terms and conditions for using services that make it easy and profitable, with respective percentages of 75 percent and 71.43 percent, demonstrates a

good assessment of the second indicator. When compared to other statements, services available based on needs have the highest value. Based on these findings, it is determined that MSME actors in Bandung City can use financial services that are properly available, with the need for financial services met and terms and conditions of use that make it easy and profitable for MSME actors.

Furthermore, financial inclusion is measured by the quality of available financial services, with a value of 67.19 percent indicating that financial inclusion is categorized as good based on the quality of available financial services. A good assessment of this indicator is shown by the dominance of agreeing answers on product statements such as the savings/loans/financial services provided are suitable and safe. Product statements such as savings/loans/financial services provided safely have the highest score of 67.41 percent, although they are not that far apart from other statements. Based on these findings, it is determined that MSME actors in Bandung City can now use financial services that are properly available, with the need for financial services met and terms and conditions of use that make it easy and profitable for MSME actors. The final indicator, related to the benefits obtained when using financial services, has a value of 74.33 percent, indicating that financial inclusion is categorized as good in terms of benefits obtained. The dominance of the agreed answers in the statement that the available financial services increased the ability to develop and access financial services with respective values of 71.43 percent and 77.23 percent contributed to this positive assessment. When compared to other statements, the statement that financial services make it easy to increase access to financial services has the highest score. Thus, information was obtained that MSME actors in the City of Bandung truly felt the benefits of both development and increased access.

After considering the above explanation, financial inclusion has an overall value of 70.93 percent, indicating that financial inclusion owned by MSMEs in Bandung City is categorized as good. This assessment is included in the good category because the four indicators used in terms of access, use, quality of financial services, and benefits when using financial services are also in the good category. Although both are in the good category, the benefit indicator when using the service has the highest score of 74.33 percent and the quality indicator of financial services has the

lowest score of 67.19 percent. The good category in the financial inclusion of MSME actors in Bandung City reflects the fact that financial institutions have already touched many MSME actors in Bandung City. The emergence of these results is inextricably linked to the phenomenon of financial services, which is becoming increasingly varied in line with the development of the times, affecting business actors' ability to access financial institutions.

4. Discussion

Despite the positive assessment, the author conducts an in-depth analysis at a later stage to identify the issues faced by MSME actors and make recommendations to stakeholders.

Based on the analysis results in Table 5. Several items can be used as a reference for stakeholders. The main point that requires attention is security when using digital finance, which receives the lowest score. Based on this, it is clear that there are still reservations among MSME actors about using available digital financial services, particularly in terms of security, both in terms of transactions and personal data and in terms of the imposition of fees that must be paid. This is also supported by the second and third lowest points, which indicate that the products available, both savings/loans/ financial services provided, are not very suitable for them and are also related to the security that is formed by each service provided. Incompatibility of available service products with needs may occur as a result of a technological transition process that requires attention. Socialization activities can be carried out to encourage MSME actors to use services while also educating them on the legality of each service. This is significant because trust in services can indirectly affect the desire to use digital services, and inadequate security in service, particularly related to transactions, can slow digital service adoption (Stewart & Jürjens, 2018). Increasing financial inclusion is one effort that can be made to reduce access barriers as digital services emerge (Hermawan et al., 2022). The final point is about the ease of opening a financial services account, which is still a barrier for MSME players. Understanding digital platforms is critical for MSME players because of the benefits that can be realized, ranging from the ease of marketing products to online transaction activities (Dwi Amalia & Citra Melati, 2021). Internet-based technology in Indonesia can benefit from technologi-

cal advancements in increasing competitiveness, the digital economy in the eyes of the world, and technological innovation opportunities (Aldy et al., 2023).

Table 5. Results of the Second Analysis of Financial Inclusion

Statement	4	3	2	1	Total	Average	Assessment scores from 1-2
Ability to access financial services.							
I feel that available financial services like digital finance are safe and affordable.	12	20	16	8	148	2.643	24
I feel that opening an account is easy.	9	28	16	3	155	2.768	19
Having financial services like digital finance makes it easier for me to reach or access financial institutions.	15	26	12	3	165	2.946	15
Ability to use financial services.							
I feel the service products provided are appropriate for the needs.	11	35	9	1	168	3.000	10
The terms and conditions for using services are aspects that make it easy and profitable for me.	11	29	13	3	160	2.857	16
Quality of financial services.							
Products such as savings/loans/financial ser-	8	28	14	6	150	2.679	20

vices provided are suitable for me.								
I feel that products such as savings/loans/financial services provided are safe.	9	28	12	7	15	2.69	19	
Benefits obtained when using financial services.								
The financial services available enhance my ability to grow.	1				16	2.85	17	
The available financial services make it easier for me to increase access to financial services.	2	27	14	3	3	0	7	
	1				17	3.08	9	
	7	30	6	3	3	9		

Source: Data proceed by authors.

5. Conclusion and Suggestion

Conclusin

Financial inclusion is important because of its role in development and economic growth, as well as MSMEs, which are the backbone of the economy and contribute to the Gross Domestic Product (GDP). According to previous research, Indonesia is in the lower median and below the main ASEAN countries. Similarly, when compared to other countries, Indonesia lags behind India and Bangladesh, so this gap must be bridged. The findings of this descriptive study show that SMEs in Bandung City have good financial inclusion, as evidenced by the four indicators used, all of which show similar results. MSME actors in Bandung City are familiar with and affected by properly delivered financial services. Financial services of various types provided to meet community needs also contribute.

Suggestion

Respondents in this study were limited to MSMEs in Bandung. For further research, it can be carried out for a wider area and a larger number of respondents. So that it will provide better and deeper information

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