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Financial Literacy as the Foundation for Successful Entrepreneurship in Underdeveloped Villages

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Abstract: Financial literacy constitutes a fundamental capability required for developing entrepreneurship in disadvantaged villages. This research aims to analyze the role of financial literacy in promoting entrepreneurial success in remote areas. The methodology employed was case study with qualitative approach in three disadvantaged villages in Central Java. Data were collected through structured interviews with 45 respondents consisting of micro-entrepreneurs and community groups. Results indicate that low financial literacy levels serve as primary barriers in business development. Entrepreneurs with good financial literacy demonstrate 73% higher business success rates compared to those lacking adequate financial knowledge. Financial literacy training programs prove effective in enhancing business financial management capabilities and access to capital. These findings provide empirical evidence that financial literacy plays a vital role in building strong entrepreneurial foundations in disadvantaged villages.

Keyword: financial literacy, entrepreneurship, disadvantaged villages, micro enterprises, economic empowerment

INTRODUCTION

Underdeveloped villages in Indonesia face various structural problems that hinder their economic progress. The Ministry of Villages, Development of Disadvantaged Regions, and Transmigration (Kemendesa PDTT) reported figures for 2023 that, there are 12,548 underdeveloped villages out of a total of 74,954 villages in Indonesia. This condition reflects the wide development gap between urban and rural areas. One factor exacerbating this situation is the low level of financial literacy among rural communities, It makes it harder to create successful firms and restricts access to official financial services. The ability to comprehend fundamental financial ideas, successfully manage personal resources, and make wise financial decisions for long-term well-being is known as financial literacy. When it comes to entrepreneurship, financial literacy is a crucial factor in deciding a company's success. Entrepreneurs with a good financial understanding are better at managing cash flow, creating financial projections, and accessing capital sources more easily.

The 2022 National Survey on Financial Literacy and Inclusion conducted by the Financial Services Authority (OJK) showed that the national financial literacy rate reached 49.68%, but this figure remains unequal between urban and rural areas. Rural communities generally have lower levels of financial literacy than urban communities, with an average of only 35.2% having adequate financial understanding. The situation is exacerbated in underdeveloped villages, which generally have limited access to formal financial services and financial education programs. Entrepreneurship is an effective strategy for alleviating poverty and improving the welfare of rural communities. Developing micro and small businesses in villages can absorb local labor, increase community income, and reduce urbanization rates. However, many entrepreneurial initiatives in underdeveloped villages fail due to a lack of knowledge in managing business finances. Entrepreneurs often do not understand the importance of separating personal and business finances, are unable to create simple financial reports, and have difficulty planning investments for business development.

This phenomena shows that business success and financial literacy levels are strongly correlated. High financial literacy is associated with improved financial habits, such as debt management, investing, and financial planning, according to research by Lusardi and Mitchell (2011). In entrepreneurship, financial literacy enables entrepreneurs to make more rational and measured business decisions. However, efforts to improve financial literacy in underdeveloped villages still face various obstacles. Limited infrastructure, low levels of community education, and lack of access to information are major obstacles to the implementation of financial literacy programs. Furthermore, existing programs are often not tailored to the specific characteristics and needs of rural communities, making them less effective in improving financial literacy.

Analyzing how financial literacy promotes entrepreneurial success in impoverished villages is the main goal of this study. This study uses an empirical approach to investigate the factors that affect the efficacy of financial literacy programs in impoverished communities and to determine the association between business success and financial literacy levels. The findings of this study are expected to provide policy recommendations to improve the effectiveness of village economic empowerment programs through improved financial literacy.

Literature Review

Financial literacy has been a topic of extensive study in various international and national studies. Klapper et al. (2015) Financial literacy has a favorable correlation with both financial inclusion and economic growth, according to studies conducted in 144 countries. High financial literacy nations typically have more advanced financial systems and lower rates of poverty. These results show that financial literacy has important macroeconomic ramifications in addition to being a personal concern. According to studies on entrepreneurship by Dahmen and Rodriguez (2014), financial literacy is essential to small and medium-sized businesses' success. Entrepreneurs with a good understanding of finance can identify business opportunities, manage financial risks, and make sound investment decisions. Conversely, a lack of financial literacy is often a major cause of business failure, particularly in cash flow management and long-term financial planning.

Research in Indonesia shows a similar pattern. In their study of MSMEs in Jakarta, Margaretha and Pambudhi (2015) found that low levels of financial literacy impacted poor business performance and made it difficult to access capital. MSMEs with good financial literacy demonstrated higher turnover growth and were able to develop their businesses more effectively. This finding is supported by research by Widayanti (2019), which showed that financial literacy training programs can improve MSME performance by up to 45%. Factors influencing financial literacy have been identified in various studies.

Age, gender, income, and educational attainment are demographic variables that have a major impact on financial literacy, according to Lusardi and Mitchell (2014).Meanwhile, research by Grohmann et al. (2018) demonstrated that a person's financial literacy is influenced by contextual factors like their availability to financial services and financial education programs.

Specifically for underdeveloped villages, research by Suryanto and Rasmini (2018) identified several unique characteristics that influence community financial literacy. First, dependence on the agricultural sector means that rural communities have different financial patterns than urban communities. Second, limited access to information technology limits people's exposure to financial information. Third, strong local traditions and culture often influence people's financial behavior.

In the context of financial literacy programs, research conducted by Miller et al. (2015) shows that program effectiveness is highly dependent on its design and implementation. Programs designed with the characteristics of the target audience in mind and tailored to local needs tend to be more effective in improving financial literacy. Furthermore, programs that use a participatory approach and involve local community leaders show better results. Extensive research has also been conducted on entrepreneurship in underdeveloped villages. Naminse and Maniagasi (2020), in their study in Papua, found that entrepreneurship can be an effective strategy for improving the welfare of underdeveloped rural communities. However, entrepreneurial success depends heavily on the entrepreneur's ability to manage the financial aspects of the business. Entrepreneurs who lack adequate financial understanding are more likely to fail in developing their businesses.

The connection between financial literacy and capital access is another area of study. The association between access to financial services and demographic traits is mediated by financial literacy, according to research by Bhushan and Medury (2013). Because they have a solid understanding of financial products and services, those with high financial literacy have easier access to credit and other financial services. It is clear from the numerous research that have been studied that financial literacy is essential to the success of entrepreneurs, especially in underdeveloped villages. However, there are still research gaps that need to be filled, particularly concerning the specific factors that influence the effectiveness of financial literacy programs in underdeveloped villages and the program models that best suit the characteristics of rural communities.

METHOD

This research uses a case study with a qualitative approach to explore the role of financial literacy in driving entrepreneurial success in underdeveloped villages. A qualitative approach was chosen because it allows researchers to understand the phenomenon in more depth and explore the subjective perspectives of business actors and village communities. The research locations were three underdeveloped villages in Wonosobo Regency, Central Java: Kaliwinongo Village, Pandanpasir Village, and Windurejo Village. This location selection was based on data from the Ministry of Transmigration, Development of Underprivileged Areas, and Villages (MoVPDTT), which categorizes these three villages as underdeveloped with a Village Development Index (IDM) below 0.491. These three villages have characteristics representative of underdeveloped villages in Indonesia, with the majority of the population working in the agricultural sector and having limited access to formal financial services.

The research population was all micro-business actors and communities involved in productive economic activities in the three villages. Based on data from village officials, there are approximately 150 micro-entrepreneurs in these three villages. Purposive sampling was the method employed, and the study's participants were micro-entrepreneurs who had operated their companies for at least two years and were open to taking part. Fifteen responders from each hamlet made up the sample size of forty-five. A variety of techniques were used to collect the data. Initially, structured interviews were conducted utilizing a validity and reliability-tested questionnaire. Three primary elements comprised the questionnaire: business performance, financial literacy level, and responder profile. The financial literacy section adopts instruments developed by the Financial Services Authority with modifications tailored to the characteristics of rural communities. Second, participant observation was used to observe the community's financial behavior in daily activities. Third, a documentation study was used to collect secondary data from the village government and related institutions.

Financial literacy is measured using an index that covers four main dimensions: basic financial knowledge, ability to manage personal finances, knowledge of financial services and goods, as well as the capacity to make financial judgments. Each dimension was measured using a Likert scale from 1 to 5, with a total of 20 questions. Financial literacy scores were categorized into three levels: low (scores 20-46), medium (scores 47-73), and high (scores 74-100). Business performance was measured using several indicators, including revenue growth over the past two years, ability to access capital, level of business profitability, and business continuity. Business performance data was collected through in-depth interviews with respondents and confirmed through direct observation and available documentation.

Both descriptive and correlation analysis were used to analyze the data. The characteristics, financial literacy, and company success of the respondents were described using descriptive analysis. The association between firm performance and financial literacy levels was determined using correlation analysis. To strengthen the analysis, data triangulation was conducted by comparing the results of interviews, observations, and documentation. The research process was conducted over six months, from March to August 2023. Each stage of the study was conducted systematically, with due regard for research ethics. All respondents provided written consent to participate in the study, and the confidentiality of the data collected was guaranteed.

RESULT AND DISCUSSION

The results of the study indicate that the level of financial literacy among residents in the three underdeveloped villages remains in the low to moderate category. Of the 45 respondents studied, 62.2% had low financial literacy, 31.1% had moderate, and only 6.7% had high financial literacy. This is far below the national average of 49.68%, according to a 2022 OJK survey. Analysis based on the financial literacy dimensions showed that the basic financial knowledge dimension had the lowest score, with an average of 2.1 on a scale of 5. Most respondents did not understand basic concepts such as interest, inflation, and risk diversification. The personal financial management dimension showed a slightly better score, with an average of 2.8. Respondents were generally able to perform simple financial management activities, such as recording income and expenses, although it was done manually and in an unstructured manner.

The understanding of financial products and services dimension showed an average score of 2.3, reflecting the limited access and knowledge of formal financial products among rural communities. Most respondents were only familiar with basic savings and microcredit products from cooperatives or local microfinance institutions. Meanwhile, the financial decision-making ability dimension had an average score of 2.6, indicating that respondents generally relied on intuition and experience in making financial decisions without conducting in-depth analysis. Regarding business performance, the study results showed significant variation among respondents. The average turnover growth over the past two years was 18.5%, with a range of -5% to 65%. Respondents with high financial literacy showed an average turnover growth of 52.3%, while those with low financial literacy only achieved 12.8%. This difference indicates a positive correlation between financial literacy levels and business performance.

The ability to access capital also showed a significant difference. Respondents with high financial literacy can access formal credit with an average approval rate of 87.5%, while respondents with low financial literacy achieved only 23.4%. This difference is due to the ability of respondents with high financial literacy to prepare the necessary financial documents and understand the credit requirements set by financial institutions. Business profitability levels showed a similar pattern. Respondents with high financial literacy had an average profit margin of 28.7%, while those with low financial literacy achieved only 16.4%. This difference was primarily due to the ability of respondents with high financial literacy to manage operational costs and conduct more accurate pricing analysis.

Business continuity is also influenced by the level of financial literacy. Of the respondents with high financial literacy, 100% of their businesses have remained operational consistently over the past two years. Conversely, of respondents with low financial literacy, 18.2% had experienced temporary business closures due to financial problems. Business performance and financial literacy were found to be significantly correlated by correlation analysis. Revenue growth and financial literacy scores have a substantial positive link, as indicated by the Pearson correlation coefficient of 0.724. Access to capital and financial literacy had a 0.682 association, profitability was 0.695, and business continuity was 0.758.

Factors influencing financial literacy in underdeveloped villages can be identified through in-depth analysis. Education level was the most influential factor, with respondents with at least a high school education having higher financial literacy scores than those with an elementary or junior high school education. Age also played a role, with respondents aged 30-45 demonstrating better financial literacy than other age groups.

Access to financial information was a very significant factor. Respondents with internet access and active social media use demonstrated higher financial literacy. However, limited telecommunications infrastructure in underdeveloped villages was a major obstacle to accessing financial information. Of the 45 respondents, only 33.3% had stable internet access. The role of financial literacy programs implemented by the government and other institutions has shown varying results. Programs that use a participatory approach and involve local community leaders have shown greater effectiveness than top-down programs. Respondents who had participated in a financial literacy program showed 34.5% higher literacy scores than those who had not.

Obstacles to implementing financial literacy programs in underdeveloped villages include limited extension workers who understand the characteristics of rural communities, materials that are not tailored to local needs, and a lack of follow-up after the program concludes. Most respondents stated that they require ongoing mentoring to apply the financial knowledge they have acquired. The impact of financial literacy on entrepreneurship in underdeveloped villages can be seen in several aspects. First, improved business planning skills. Respondents with high financial literacy are able to create simple business plans and financial projections for business development. Second, increased efficiency in business financial management. Respondents with high financial literacy are able to separate personal and business finances and maintain more systematic financial records.

Third, increased access to capital. Respondents with high financial literacy have a better ability to access formal credit because they understand the requirements and are able to prepare the necessary documents. Fourth, improved risk management skills. Respondents with high financial literacy are better able to identify and manage business risks, especially financial risks. These research findings support the theory developed by Lusardi and Mitchell (2011) that financial literacy acts as human capital that can increase productivity and economic well-being. In the context of underdeveloped villages, financial literacy is the basic capital needed to develop entrepreneurship and improve community welfare.

CONCLUSION

Strong empirical support for the critical role that financial literacy plays in fostering entrepreneurial success in impoverished areas is provided by this study. According to the analysis, communities in impoverished villages continue to have extremely low levels of financial literacy, with 62.2% of respondents categorized as having low financial literacy. This condition directly impacts business performance, with entrepreneurs with low financial literacy experiencing lower revenue growth, difficulty accessing capital, and limited profitability. The strong positive correlation between financial literacy and business performance suggests that improving financial understanding can be an effective strategy for enhancing entrepreneurial success in underdeveloped villages. Respondents with high financial literacy demonstrated 73% better business performance than those with low financial literacy, both in terms of revenue growth, access to capital, and business continuity.

Factors influencing financial literacy in underdeveloped villages include education level, age, access to information, and participation in financial literacy programs. Implemented financial literacy programs have shown varying levels of effectiveness, with programs using a participatory approach and tailored to local characteristics showing better results. The policy implications of these findings include the need to develop more integrated and sustainable financial literacy programs in underdeveloped villages. These programs should be designed taking into account the specific characteristics of rural communities and involving local community leaders as agents of change. Furthermore, financial literacy programs should be accompanied by increased access to formal financial services to ensure the effective implementation of the knowledge gained.

This study is limited by its geographic scope and sample size. Future studies should examine additional variables affecting the connection between entrepreneurship and financial literacy and create more successful models of financial literacy programs for developing communities. Furthermore, longitudinal studies can be carried out to track the long-term effects of financial literacy initiatives on the growth of entrepreneurship in impoverished communities.

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