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DOES FINANCIAL LITERACY AND INCLUSION AFFECT VILLAGE OWNED ENTERPRISES FINANCIAL PERFORMANCE

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Abstract

This study aims to examine the impact of financial literacy and financial inclusion on financial performance with rational decision-making and financial capital as mediating variables. This study uses a partial least square structural equation model since this study uses latent variables. All variables in this study were measured using a questionnaire distributed to BUM Desa managers in East Jawa Province using a convenience sampling technique. A total of 69 questionnaires were returned and used in this study. The financial literacy of BUM Desa managers has a direct influence on improving BUMDesa's financial performance. Financial inclusion of BUM Desa will motivate BUM Desa managers to be rational in making capital decisions that will affect the improvement of financial performance. This study cannot prove the effect of financial inclusion on financial performance. This study failed to prove the mediating role of the impact of financial literacy on financial performance.

Keywords: financial inclusion; financial literacy; financial performance; Village Owned Enterprises (BUMDes)

INTRODUCTION

In line with President Joko Widodo's vision outlined in the 3rd nawa cita, Indonesia aims to strengthen regions and villages to promote national development. The Village Fund policy, initiated in 2015 and continuously increasing, plays a crucial role in this endeavor. The funds, which have reached IDR 400.1 trillion by 2021, primarily focus on improving basic village infrastructure. However, there is a need to optimize their utilization for community economic empowerment to ensure sustainable economic growth. To achieve this, the Village Fund now targets the establishment, development, and revitalization of Village-Owned Enterprises (BUM Desa) or Joint BUM Desa. BUM Desa, legally established by villages or jointly with villages, to manage businesses, utilize village assets, foster investment, and provide public services for the benefit of the community. Various parties, including the Financial Services Authority (OJK), recognize the importance of empowering BUM Desa and have collaborated to enhance their institutional capacity, expand financial access, and promote digitalization through programs such as the BUM Desa Center Optimization (OJK, 2020).

The Ministry of Villages and PDTT has registered a significant number of BUM Desa and BUM Desa Bersama, totaling 40,013 units, showcasing their potential as instruments for

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community economic empowerment. Less than 10% of the 6,118 registered BUM Desa in the province of East Java are classified as developed, with 2,285 as developing, 3,296 as novice, and 537 as developed. To address this, the East Java Provincial Government has implemented various programs to support BUM Desa development, such as marketing strengthening collaborations with Pos Indonesia, Bli Bli, and Tokopedia, banking facility programs supported by several banks, and capacity building programs in partnership with educational institutions and foundations. Despite these efforts, BUM Desa still faces challenges, including limited business scope, inadequate managerial skills, low digital technology adoption, and insufficient financial literacy and inclusion (Kusuma, 2018).

The 2019 National Survey on Financial Literacy and Inclusion (SNLIK) in Indonesia showed positive results, with financial literacy and inclusion rates of 38.03% and 76.91% respectively. These rates exceed the targets set by the government in relevant regulations. However, when analyzed by region, rural areas exhibited lower levels of financial literacy and inclusion at 34.53% and 68.49% respectively. Various research studies have explored the relationship between financial literacy, inclusion, and business performance. For example, research conducted in Makassar found a significant relationship between financial literacy and rational financial decisions, as well as financial capital. Another study in Nigeria concluded that the financial literacy of entrepreneurs influences their business performance. Additionally, research on BUM DESA in Buleleng revealed that both financial literacy and inclusion have a positive impact on BUM DESA's performance. Financial literacy among BUM DESA managers plays a crucial role in their financial activities, including budgeting, capital decision-making, and financing. Understanding the features and utilization of financial/banking products and services offered in the market can promote BUM DESA's development, thereby improving its financial performance. Consequently, the research poses several questions regarding the influence of financial literacy, financial inclusion, rational financing decisions, financial capital, and financial performance in the context of BUM DESA.

This study examines the impact of financial literacy and financial inclusion on the performance of BUM Desa (Village-Owned Enterprises). The research focuses on BUM Desa in East Java Province operating in 2022. The objective is to measure the financial literacy and financial inclusion of BUM Desa managers, and analyze their relationship with rational decision making and financial performance of BUM Desa. Improved financial literacy is expected to enhance budgeting, asset utilization, loan management, and risk management of BUM Desa. Additionally, better financial management and access to banking facilities can lead to short-term financial performance improvements and long-term sustainability. The findings can guide development programs for BUM Desa managers, aid in financial literacy education in rural areas, and inform government policies and initiatives. The research report

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comprises five chapters, covering the introduction, theoretical basis, research methodology, results and discussion, and concluding remarks.

METHODs

This quantitative study aims to explore the relationship between latent independent and dependent variables in the context of BUM Desa. The research focuses on investigating whether the financial literacy of BUM Desa managers and financial inclusion of BUM Desa impact the decision-making process in determining BUM Desa's capital, and ultimately, their financial performance. Primary data was collected through an online-based questionnaire distributed to BUM Desa managers in East Java via WhatsApp groups. The questionnaire utilized a 5-point Likert scale to measure the variables. The collected data was analyzed using the structural equation model partial least square (SEM PLS) with the SMART PLS application. The analysis involved evaluating the reflective and formative measurement models, assessing internal consistency, convergent and discriminant validity, and analyzing the structural model's path coefficients, R2, Q2, effect sizes (f^2 and q^2), and significance levels. The research methodology provides a detailed description of the data collection process, variable definitions, and analysis procedures (Heryanda et al., 2020).

RESULTS AND DISCUSSION

Respondents in this study are Direoctor and managers in BUM DESA. Respondents are dominated by males with age above 40 years old with undergraduate education background. This indicates that BUMDes managers in East Java have sufficient cognitive ability and experience to manage their business.

Table 1. Respondent Profile

Gender dan Usia	Pendidikan				Kedudukan dalam BUM Desa			
	SMA	Diploma	Sarjana	S2	Direktur	Sekretaris	Bendahara	Lainnya
Laki-laki	**16**	**4**	**28**	**5**	**36**	**13**	**4**	**0**
>40 tahun	10	3	14	4	27	3	1	
24-30 tahun	2		2			4		
30-40 tahun	4	1	12	1	9	6	3	
Perempuan	**5**	**2**	**9**	**0**	**4**	**3**	**8**	**1**
>40 tahun			2		1		1	
24-30 tahun	2		4			2	4	
30-40 tahun	3	2	3		3	1	3	1
Jumlah per kategori	**21**	**6**	**37**	**5**	**40**	**16**	**12**	**1**
Jumlah Responden				**69**				**69**

source: data processing, 2023

The number of BUM Desa in East Java has reached thousands, but only 200 BUM Desa are categorized as developed BUM Desa. The BUM Desa respondents in this study are dominated by BUM Desa that do business in the service industry with a micro size, indicating that the

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majority of employees are less than 10 people and turnover is still less than Rp25 million per year.

Table 2. BUM Desa Profile

Jenis Jasa	Omset			Jumlah Karyawan			Usia BUMDesa		
	<Rp25 juta	Rp25juta-Rp200 juta	Rp200 juta - Rp4miliar	<10 orang	10-30 orang	>30 orang	<3 th	3-5 th	>5 thn
Agen	5	1		6			1	4	1
Jasa	15	13	3	25	4	2	9	15	7
Manufaktur	10	5	2	14	2	1	7	6	4
Retail/eceran	5			5			1	3	1
Lain-lain	3	4	3	10			3	4	3
Jumlah per kategori	38	23	8	60	6	3	21	32	16
Jumlah Responden	69			69			69		

source: data processing, 2023

Evaluating the reflecting and formative measurement models' quality is the first step in the PLS-SEM model testing procedure. Proceed with the evaluation of the structural model results if the constructions' measurement properties are deemed satisfactory. Path estimations ought to be meaningful and statistically significant. Furthermore, a high R2 indicates that the endogenous constructs in the structural model should have a high level of explained variance.

To assess whether the model used in this study meets the test requirements, the following steps are taken:

Evaluation of the Measurement Model

The model used in this study can be described in Figure 1

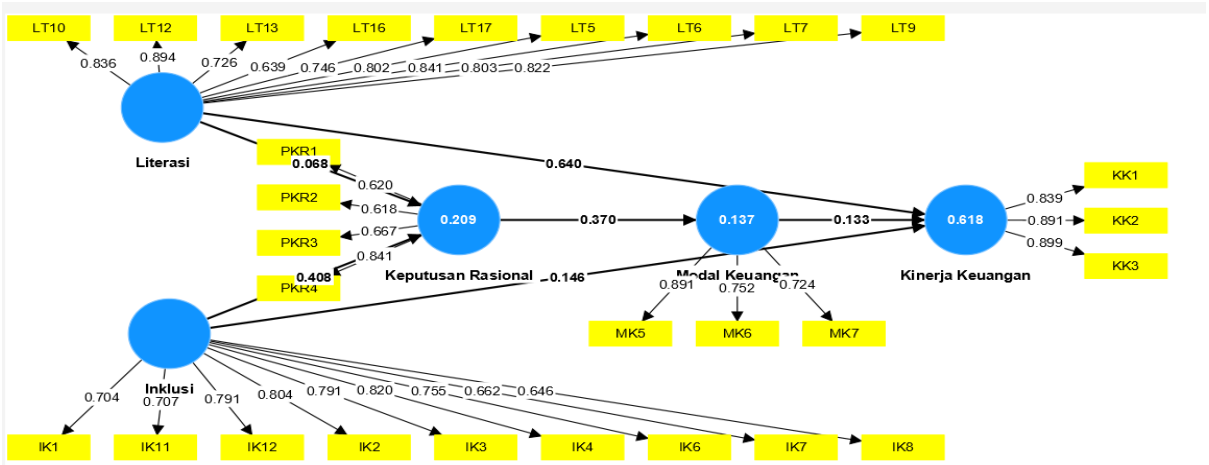

Figure 1. Research Model

Evaluation of the measurement model in this study uses reflective and formative model evaluation.

1. Evaluation of the reflective model in this study carried out several tests:
   a. testing internal consistency Cronbach's alpha, composite reliability and AVE with the results as Table 3

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Table 3. Internal Consistency

Variable	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Rational Decision	0.675	0.691	0.859	0.753
Financial Performance	0.849	0.854	0.909	0.768
Financial Literacy	0.943	0.950	0.951	0.623
Financial Capital	0.701	0.790	0.832	0.627
Financial Inclusion	0.905	0.914	0.920	0.513

Based on SMART PLS processing, it is known that the Cronbah's alpha and composite reliability values show values above 0.6. In Hair (2021) it is stated that the value of Cronbachs alpha and composite reliability should ideally be above 0.7, but the value of 0.6 is still acceptable in exploratory research.

b. Convergent Validity

As presented in Table 5, the AVE value in this study is above 0.4 so it can be concluded that the indicator size has a positive correlation with other indicators in a construct measurement. Although Hair states that ideally the AVE value is> 0.7, between 0.4 -0.7 can still be used if it does not cause the composite reliability value to drop. In this study, it can be concluded that the composite reliability value meets the requirements because all variables are above> 0.7 except Rational Decision which is still above the acceptable value in exploratory research.

c. Discriminant Validity, to assess whether a construct is really different from other constructs

- Crossloading: outer loading in related constructs must be greater than cross loading (correlation with other constructs). The cross loading value is presented in Table 4.

Table 4. Crossloading

Indicator		Financial Performance	Financial Literacy	Financial Capital	Financial Inclusion
IK1	0.381	0.393	0.444	0.278	0.671
IK10	0.228	0.525	0.451	0.092	0.640
IK11	0.390	0.625	0.606	0.119	0.762
IK12	0.401	0.635	0.581	0.117	0.804
IK2	0.432	0.512	0.541	0.352	0.786
IK3	0.403	0.484	0.488	0.279	0.774
IK4	0.387	0.439	0.514	0.272	0.766
IK5	0.486	0.688	0.728	0.188	0.671
IK6	0.314	0.320	0.473	0.194	0.736
IK7	0.288	0.310	0.434	0.233	0.610
IK8	0.383	0.335	0.432	0.197	0.625
KK1	0.406	0.840	0.599	0.293	0.610

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KK2	0.503	0.889	0.747	0.255	0.619
KK3	0.366	0.899	0.685	0.216	0.613
LT10	0.428	0.679	0.823	0.124	0.611
LT11	0.431	0.747	0.868	0.134	0.615
LT12	0.429	0.710	0.897	0.140	0.626
LT13	0.353	0.591	0.712	0.249	0.592
LT16	0.280	0.488	0.629	0.228	0.537
LT17	0.293	0.509	0.729	0.189	0.582
LT2	0.337	0.489	0.611	0.294	0.510
LT5	0.410	0.591	0.803	0.108	0.661
LT6	0.363	0.588	0.842	0.074	0.599
LT7	0.178	0.575	0.803	0.010	0.553
LT8	0.261	0.629	0.867	0.052	0.554
LT9	0.342	0.662	0.827	0.116	0.577
MK5	0.226	0.313	0.189	0.914	0.317
MK6	0.182	0.169	0.131	0.722	0.135
MK7	0.149	0.169	0.079	0.723	0.199
PKR3	0.841	0.460	0.391	0.178	0.408
PKR4	0.894	0.394	0.379	0.233	0.506

From Table 4, it can be seen that the outer loading of each indicator is greater than the crossloading (correlation of these indicators with other constructs). This means that the indicators used in this study are able to measure constructs / variables well.

Table 5. Fornell Larcker

	Rational Decision	Financial Performance	Financial Literacy	Financial Capital	Financial Inclusion
Rational Decision	0.868				
Financial Performance	0.487	0.876			
Financial Literacy	0.442	0.776	0.789		
Financial Capital	0.239	0.289	0.177	0.792	
Financial Inclusion	0.531	0.700	0.742	0.289	0.716

Evaluation of discriminatory validity is carried out with the Forner Larcker criterion, to prove that the variables used are theoretically different and empirically proven. The criterion is that the AVE root is greater than the correlation between variables. From Table 4, it can be seen that all variables have an AVE root value greater than the correlation with other variables, so it can be concluded that the variables used in this study are valid.

- Heterotrait-monotrait ratio (HTMT) with a limit of <0.9. HTMT above 0.9 indicates a lack of discriminant validity.

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Table 6. Heterotrait-monotrait ratio

	Financial Inclusion	Rational Decision	Financial Performance	Financial Literacy	Financial Capital
Financial Inclusion					
Rational Decision	0.557				
Financial Performance	0.695	0.459			
Financial Literacy	0.751	0.427	0.851		
Financial Capital	0.368	0.585	0.357	0.222	

Hair (2019) recommends HTMT over other measures because this measure is considered more sensitive in detecting discriminant validity. Values below 0.9 for pairs of discriminant validity variables were all achieved.

2. Formative Model

The procedure for evaluating the formative model used in this study is seen from the significance of outer loading and outer weight and the absence of multicollinearity between measurement items with a VIF value below 5.

Table 7. Loading Factor

Indicator	Outer loading	P values	Outer weight	Pvalues	VIF
IK1 <- Inclusion	0.704	0.000	0.133	0.000	2.098
IK11 <- Inclusion	0.707	0.000	0.178	0.000	2.627
IK12 <- Inclusion	0.791	0.000	0.186	0.000	3.205
IK2 <- Inclusion	0.804	0.000	0.169	0.000	3.446
IK3 <- Inclusion	0.791	0.000	0.151	0.000	3.123
IK4 <- Inclusion	0.820	0.000	0.154	0.000	2.822
IK6 <- Inclusion	0.755	0.000	0.115	0.000	2.186
IK7 <- Inclusion	0.662	0.000	0.123	0.000	1.858
IK8 <- Inclusion	0.646	0.000	0.129	0.000	1.657
KK1 <- Financial Performance	0.838	0.000	0.349	0.000	1.825
KK2 <- Financial Performance	0.890	0.000	0.411	0.000	2.188
KK3 <- Financial Performance	0.899	0.000	0.380	0.000	2.426
LT10 <- Literacy	0.824	0.000	0.121	0.000	3.244
LT11 <- Literacy	0.867	0.000	0.128	0.000	6.546
LT12 <- Literacy	0.896	0.000	0.125	0.000	8.047
LT13 <- Literacy	0.710	0.000	0.102	0.000	2.514
LT16 <- Literacy	0.625	0.001	0.082	0.001	2.581
LT17 <- Literacy	0.725	0.000	0.085	0.000	4.186
LT2 <- Literacy	0.614	0.000	0.095	0.000	2.072
LT5 <- Literacy	0.806	0.000	0.111	0.000	3.643
LT6 <- Literacy	0.842	0.000	0.103	0.000	3.699
LT7 <- Literacy	0.804	0.000	0.092	0.000	3.734

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Indicator	Outer loading	P values	Outer weight	Pvalues	VIF
LT8 <- Literacy	0.868	0.000	0.102	0.000	6.584
LT9 <- Literacy	0.829	0.000	0.116	0.000	4.525
MK5 <- Financial Capital	0.891	0.000	0.494	0.000	1.788
MK6 <- Financial Capital	0.752	0.000	0.412	0.001	1.345
MK7 <- Financial Capital	0.724	0.000	0.345	0.002	1.429
PKR1 <- Rational Decision	0.618	0.006	0.300	0.036	1.578
PKR2 <- Rational Decision	0.616	0.004	0.255	0.023	1.521
PKR3 <- Rational Decision	0.669	0.000	0.369	0.003	1.382
PKR4 <- Rational Decision	0.841	0.000	0.487	0.000	1.527

In this study, the loading factor criteria used are above 0.6 with a significance of <0.05. Based on SMART PLS data processing, there are several indicators that are not used in research because they have a loading factor of less than 0.6, namely IK5, IK9, IK10, LT1, LT3, LT4, LT14, LT15, MK1, MK2, MK3, and MK4. Apart from these variables, it shows outer loading above 0.6 and significance <0.05.

There are 3 indicators with a VIF value> 0.5, indicating that there is multicollinearity in these indicators, so for hypothesis testing the LT 8, LT 11, and LT12 indicators are excluded from the model.

Hypothesis Testing

Hypothesis testing in research with SEMPLS is carried out by testing the Structural Model with the results as shown in Table 8.

Table 8. Structural Model Evaluation Results

	Hypothesis	Path coefficients	P values	f square	95% interval confidence	
					bottom	top
H1	Literacy -> Rational Decision	0.068	0.719	0.003	-0.278	0.474
H2	Literacy -> Financial Performance	0.640	0.000	0.559	0.353	0.936
H3	Inclusion -> Rational Decision	0.408	0.049	0.110	-0.043	0.787
H4	Inclusion -> Financial Performance	0.146	0.400	0.027	-0.171	0.481
H5	Rational Decision -> Financial Capital	0.370	0.001	0.158	0.157	0.563
H6	Financial Capital -> Financial Performance	0.133	0.005	0.042	0.059	0.247

From Table 8, four hypotheses in this study are accepted, while two hypotheses are not accepted. Hypothesis 1, which suggests a positive relationship between financial literacy and rational decision-making, is not supported, as the significance and substantive effect are minimal (<0.02) for rational decision-making in BUM Desa. Hypothesis 2, indicating the influence of financial literacy on financial performance, is proven with a high substantive effect (>0.35), reaching a maximum of 0.936 with treatment. Hypothesis 3, stating a positive relationship between financial inclusion and rational decision-making, is supported, as

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financial inclusion has a substantive effect (close to 0.15) on rational decision-making in BUM Desa, with a maximum effect of 0.787 with treatment. Hypothesis 4, which suggests a positive relationship between financial inclusion and financial performance, is not significant, despite financial inclusion having a substantive effect on the company's financial performance. Hypothesis 5, indicating a positive relationship between rational decision-making and financial capital, is significant, with sufficient substantive effects (up to 0.563) to impact financial capital. Hypothesis 6, stating a positive relationship between financial capital and the financial performance of BUM Desa, is statistically proven (Heryanda et al., 2020).

B. DISCUSSION

Financial Literacy and Rational Decision-Making of BUM Desa

The financial literacy of East Java BUM Desa managers who are respondents in this study is quite good because in each indicator used the minimum value obtained is 3.46 on a scale of 5. However, from the results of hypothesis testing financial literacy does not have a significant effect on rational decision making. This result is different from the results of research by Sahilauw et.al (2020) which succeeded in proving that financial literacy has a positive effect on rational financial decision-making in MSME managers in Makassar.

This may be due to the BUM Desa respondents in this study being BUM Desa that rely on capital contributions from village participation (taken from the Village Fund). BUM Desa which obtained its capital from community participation was only around 10%, which was very limited in number when compared to capital participation from the village. The same applies to financing from loans. There are several BUM Desa that obtain loans but these are limited to loans from suppliers (10%) and loans from banks of around 9%. Thus, BUM Desa managers have not yet faced complex financing decision-making problems, which may cause their knowledge of finance to not affect the decision-making process. In addition, it should also be realized that the decision-making of BUM Desa managers also depends on regulations and policies determined by the Village Head.

Financial Literacy and Financial Performance of BUM Desa.

The results of this study prove that BUM Desa's financial management literacy greatly determines its ability to manage BUM Desa's finances and business, even the substantial effect of financial literacy reaches a very large category. Likewise, the prediction of the effect of financial literacy of BUM Desa managers will reach more than 90% if treatment is carried out to improve financial literacy. Indicators of financial literacy in this study are not limited to managers' knowledge of financial products but how BUM Desa managers implement their knowledge to improve welfare (BUM Desa financial performance).

In general, BUM Desa managers have prepared budgets to plan BUMDes business, understand how to effectively manage BUM Desa finances, carry out financial records in the

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form of daily transactions as well as BUM Desa assets and liabilities. These indicators show that BUM Desa managers are able to manage BUM Desa finances to achieve their business objectives, are able to use their working capital to invest and run the BUMDes business well.

If it is associated with the pattern of BUMDes financing its capital, we suspect that BUMDes managers attempt to manage finances prudently, by relying more on capital from internal sources instead of using external capital sources. Thus, BUM Desa managers are not preoccupied with fulfilling requirements and commitments with resource providers and are more focused on improving their financial performance. With financial literacy, a person will have the confidence to make strategic decisions for their business so as to minimize risk and increase the potential for profit.

The results of this study are in line with the results of research by Usama and Yussof (2020) which concluded that the financial literacy of MSME players in Nigeria has a significant effect on the performance of MSMEs with an explanatory power of 65%. The results of Aribawa's (2016) research also prove that financial literacy has a significant effect on the performance and sustainability of MSMEs in Central Java.

Financial Inclusion and Rational Decision Making of BUM Desa.

The level of financial inclusion of respondents in this study reached a median of 3.6. Financial inclusion in the form of utilization of financial facilities is still limited in BUM Desa in East Java. Financial inclusion allows BUM Desa managers to utilize financial facilities (banking) to improve the quality of rational decision-making in BUMDes management. The level of financial inclusion indicates that a person can identify the benefits and risks of using financial/banking facilities that can be used in financial management.

Financial inclusion has a substantive effect close to the value of 0.15 which means it has a moderate substantive effect. At the 95% confidence level, treatment of financial inclusion will increase the effect of financial inclusion on rational decision making to a maximum of 0.787. The implication is that BUMDes managers or BUMDes supervisors must be able to reduce barriers to BUM Desa financial inclusion both in terms of access, use of financial/banking facilities, quality of use of facilities with technology to improve the quality of BUMDes financial management. The BUMDes coach needs to consider bringing financial facilities closer to the community and BUMDes with technological intermediaries, for example the use of electronic money facilities and other facilities.

Financial Inclusion and BUM Desa Financial Performance

The results showed that financial inclusion has no significant effect on BUMDes financial performance. This result does not support the results of previous research conducted by Ratnawati (2022) which proves that financial inclusion has an influence on MSME performance through efficiency variables.

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With financial inclusion, ideally it will reduce the liquidity problem of a business so that the need to get working capital quickly to take advantage of business opportunities can be met with financial inclusion. Financial inclusion also allows a person to find alternatives for investment, so a high level of financial inclusion will tend to encourage investment activity. Appropriate financial inclusion will encourage small-scale business activities (Egbetunde, 2012; Martinez, 2011; Okafor, 2012).

The BUM Desa respondents in this study are BUM Desa that are still in the micro-scale category that manage capital funds originating from village participation, and the majority conduct businesses that are the daily needs of the community so that the problem of financial flexibility which is often a problem in business development has not become an urgent issue, so that although the average level of financial inclusion is sufficient, the level of financial inclusion has not had a significant contribution in achieving BUM Desa financial performance.

Rational Decision Making and Financial Capital

Making financing decisions for a business requires sufficient information on financial management literacy and understanding of financial facilities that can be utilized so that business managers can consider various alternatives when determining the capital resources of the company. The benefits and risks between capital obtained from internal (village equity) and external financing sources (bank loans, microfinance institutions, community equity participation) can be considered to achieve sufficient BUM Desa capital to take advantage of business opportunities.

In general, business managers who have good financial management knowledge will choose a variety of capital structures, but when viewed from the capital structures owned by BUM Desa respondents in this study, it appears that BUM Desa managers choose to use capital financing sources from internal resources (village equity and retained earnings). This decision is not taken without consideration. The use of external financial resources (public equity participation, bank loans, or other parties) carries a greater risk than internal financial resources in the form of fluctuations in interest rates and cash flows.

Financial Capital and Financial Performance

The effect of financial capital on the financial performance of BUMDes in this study is evident despite its low effect size. This may be due to the capital structure owned by BUM Desa respondents, the majority of whom still use internal financing sources. Capital derived from loans is still limited to facilities from suppliers from operational transactions and bank loans with a very limited amount. However, this is understandable because the BUMDes business does not yet require large and complex capital when viewed from the age of the BUMDes, which is still around 3-5 years old. In addition, the BUM Desa's turnover of Rp.25 million - Rp.200 million can still be met from internal capital sources.

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CONCLUSION

The study concludes that financial literacy has no significant positive relationship with rational decision-making in BUM Desa, but it does have a significant influence on financial performance. Financial inclusion is proven to have a positive influence on rational decision-making, but its relationship with financial performance is not supported. There is a significant positive relationship between rational decision-making and financial capital, as well as between financial capital and financial performance of BUM Desa. These findings imply that the government and relevant authorities should focus on improving the financial literacy and rational decision-making abilities of BUM Desa managers to enhance their financial performance. This improvement can lead to a multiplier effect on the village economy, contributing to Indonesia's development from the periphery. Further efforts should be made to support and empower BUM Desa, taking into account the research findings and recommendations (Heryanda et al., 2020).

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