

# THE EFFECT OF FINANCIAL LITERACY KNOWLEDGE ON THE FINANCE MANAGEMENT OF FARMERS “SIWALAN” IN EAST JAVA

Suci Rohayati, Budi Eko Soetjipto, Agung Haryono, Hari Wahyono, Siti Sri Wulandari

**Abstract**--- This research aims to determine the influence of financial literacy knowledge on the management of the financial management of Siwalan farmers. Research conducted in Gresik, East Java in Indonesia. Data is collected through questionnaires to respondents, while data is analyzed using T-Test. The findings show that there are several indicators of the knowledge variable of financial literacy which has no effect on the basic knowledge indicator of small Medium business financial management which means that the farmer still thinks that they are able to survive long enough in managing their business without adding or changing business management system. There are also negative indicators and significant that are the SME's loans and savings on the financial management of the Siwalan farmers. It has the meaning that the weak knowledge of the loan procedure and the savings of small-medium enterprises owned by the Borassus Flabelliform influential people with knowledge of interest rates and credit, weak intake of opportunities or benefits offered by the financial services, unable to explain the financial concept of its business. However, based on the value of R Square it can be concluded that there is a simultaneous influence of the knowledge variable of financial literacy to the financial management variables.

**Keywords**--- *financial literacy, financial attitudes, farmers “siwalan”*

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## I. INTRODUCTION

The financial and economic development of the community is an important issue in financial literacy. The meaning of financial literacy knowledge is insight and individual knowledge of a financial concept for the future [1]. The more people understand a financial management and they are able to overcome various financial problems in their daily life and can improve welfare. High levels of individual understanding of financial will provide a welfare impact. Financial education is a long process that promotes individuals to have a financial plan in the future to get well-being according to the patterns and lifestyles they live in [2]. The management of personal finance is one of the most fundamental competencies required by modern society, because the choice of consumers from day to day will affect the financial security and standard of one's life. Many people are implementing financial management of their business based on self-taught personal financial management experience and frequent mistakes.

[3] Knowledge of financial management is an important prerequisite for farmers to efficiently manage business by farmers and to access productive credit. Financial management in the agricultural sector, becomes very important where agricultural financing helps to adopt critical technology at the right time that will affect productivity [4]. [5] stated that over the last five years agriculture has changed which caused the decline in commodity prices and the increase in production cost prices including higher interest rates. As a result, farmers are required to be a good financial manager in playing an important role in efficient financial management on their land business activities.

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Suci Rohayati, Faculty of Economics, Universitas Negeri Surabaya, Indonesia, E-mail: [sucirohayati@unesa.ac.id](mailto:sucirohayati@unesa.ac.id)  
Budi Eko Soetjipto, Faculty of Economics, Universitas Negeri Malang, Indonesia, E-mail: [budi.eko.fe@um.ac.id](mailto:budi.eko.fe@um.ac.id)  
Agung Haryono, Faculty of Economics, Universitas Negeri Malang, Indonesia, E-mail: [agung.haryono.fe@um.ac.id](mailto:agung.haryono.fe@um.ac.id)  
Hari Wahyono, Faculty of Economics, Universitas Negeri Malang, Indonesia, E-mail: [hari.wahyono.fe@um.ac.id](mailto:hari.wahyono.fe@um.ac.id)  
Siti Sri Wulandari, Faculty of Economics, Universitas Negeri Surabaya, Indonesia, E-mail: [sitiwulandari@unesa.ac.id](mailto:sitiwulandari@unesa.ac.id)

There are several factors that are the reason for someone to have knowledge of low financial literacy including sociodemographic and cognitive abilities [1]. [6] states that sociodemographic and cognitive abilities are of significant effect on one's financial literacy. There are several sociodemographic indicators that are usually used by previous research such as age, income, occupation, education, marital status. One that is often needed by farmers in case of difficulties in financial problems is the bank. The Bank realizes that agriculture is an industry with a changing income that requires knowledge of good finance to manage its farm [7]. [8] Explain that farmers often utilize non-formal financial institutions to perform loan transactions with high interest rates such as loan sharks. Some farmers also interact with informal financial institutions such as field counseling that provide knowledge of how the finance of the farmer business should be managed, but the majority have not responded well.

Many variables can encourage farmers to save money, such as demographic layout, qualified financial institutions, investing, improved income changes, low interest rates, and business or education insurance [9]. In developing countries financial literacy has not much done research. Research focuses solely on how to measure the knowledge level of individual financial literacy by using a financial literacy module [10]. However, based on the study review since 2000 by [11], Making effective personal or business finance decisions through a plan for prosperity is a skill and the ability to use knowledge about financial concepts is the meaning of financial literacy.

Borrasso's Flabelliform plants can grow in tropical areas and can grow on dry land despite the badlands and rocky soils, such as North Sulawesi, South Sulawesi, North Sumatera and East Java, Indonesia [12]. Farmers' families have seasonal income in fulfilling their daily needs. The individual's ability to process economic information and make decisions based on information obtained in the form of financial planning, accumulation of wealth, debt, and investment and insurance is a sense of financial literacy. [13]. Good knowledge of financial concepts helps in making good financial decisions. Ability manages personal or business finances indispensable in everyday life. [14]. Both basic knowledge and knowledge of attitude and behavior in managing the finances. A low understanding of financial management will understate the financial crisis and excessive market exploitation for consumers [15]. In decision-making relating to personal finances, one must refer to the financial knowledge and ability to utilize financial literacy knowledge [16]. In the family farmers the investment behavior is demonstrated through the activity of saving, joining insurance, preparing the needs of school children and some for business capital. Therefore, this research aims to determine the influence of financial literacy knowledge on the financial management of farmers in Gresik East Java

## II. METHOD

This study implements quantitative methods using linear regression analyses. Research conducted by farmers in Three villages in Gresik Regency East Java Indonesia. The sample of the study was about 34 farmers "Siwalan". Additionally, the sample is determined using proportional randomized sampling. Data is collected using questionnaires given to respondents with five scale criteria. In this study, knowledge of financial literacy was measured with 6 indicators including 1) basic knowledge of personal financial management conducted with the aim of planning, organizing, directing, and supervising financial activities such as procurement and utilization of funds for both business and personal management; 2) basic knowledge of small-medium business financial management aims to improve the financial performance of its business; 3) Financial literacy is beneficial in making the decision especially the decision to save or invest and to achieve a pre-determined goal; 4) SME loans and savings are facilitating the preparation of the financial statements of small-medium enterprises; 5) investments are capital investing to gain profit in the future; 6) Insurance is the right method to protect or reduce the risk of financial losses.

Meanwhile, the financial management variables of the intermediate small business by the four indicators of 1) funding sources are activities in asset management, use of funds, and also how to obtain funds; 2) Financial statements assess the performance of the business and can assist in dealing with problems in running the business; 3) Cash Management is an activity in managing wealth to generate profits and utilize these capital sources to finance the business; 4) Budgeting is the process of planning as well as controlling the operation activities of the company, expressed in the Activity Unit and Money unit with the aim of projecting financial statements and business cash flows.

## BI. RESULTS

**Tabel 1 : Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	5.547	1.850		2.998	.006
	Basic knowledge of personal finance management (X1)	.238	.115	.174	2.074	.049
	Basic knowledge of SMES financial management (X2)	.116	.115	.099	1.009	.323
	Financial literacy (X3)	.608	.096	.622	6.315	.000
	Literacy and savings on MSME loans (X4)	-.518	.159	-.348	-3.263	.003
	Investment literacy (X5)	.203	.096	.206	2.127	.044
	Insurance literacy (X6)	.343	.105	.306	3.270	.003

a. Dependent Variable: Financial behaviour (Y)

### 1) First hypothesis testing (H1)

Known to the value of GIS. For the effect of X1 to Y is  $0.049 < 0.05$  and a value of T calculated  $2.074 > T$  table 2.069 so that it can be concluded that H1 is accepted which means there is a positive and significant influence on the basic knowledge of personal financial management of financial management.

### 2) Second hypothesis testing (H2)

Known GIS values. For the influence of X2 against Y is  $0.323 > 0.05$  and the calculated T value of  $1.009 < t$  table 2.069 so that it can be concluded that H2 is rejected which means there is no influence between financial literacy knowledge of financial management. The results gained in this study indicate that the level of knowledge of financial literacy does not affect the management of a business. The possibility of the absence of differences is the number of respondents who already have a farm business more than 10 years. A borassus flabellifer farmer's business manager thinks that they can survive long enough without adding or changing business management systems. Such a way of thinking will make the farmer maintain the system without wanting to increase knowledge related to financial management.

### 3) Third hypothesis testing (H3)

Known to the value of GIS. For the influence of X3 against Y is  $0.000 < 0.05$  and the calculated T value of  $6.315 > T$  table 2.069 so that it can be concluded that H3 is acceptable which means there is a positive and significant influence of financial literacy towards financial management.

### 4) Fourth hypothesis testing (H4)

Known GIS values. For a X4 effect on Y is  $0.003 < 0.05$  and a value of the count  $-3.263 > T$  table 2.069 so that it can be concluded that H4 is acceptable which means there is a significant and negative influence between the loan and SME savings to the financial management of the Siwalan farmer. It has the meaning that the weakness of knowledge about loan procedures and small-medium business savings owned by the Borassus Flabellifer influential people with knowledge of interest rates and credit, is still weak in taking the opportunity or profit from the offer provided by the financial services,

and yet able to communicate the financial concept of its business.

**5) The fifth hypothesis test (H5)**

Known for the value of Sig. For X5 influence on Y is  $0.044 < 0.05$  and the calculated T value of  $2.127 > T$  table 2.069 so that it can be concluded that H5 are acceptable which means there is a positive and significant influence on investment in financial management.

**6) Sixth hypothesis test (H6)**

Known GIS values. For the effect of X6 against Y is  $0.003 < 0.05$  and the value of T calculated  $3.270 > T$  table 2.069 so that it can be concluded that H6 is acceptable which means there is a positive and significant influence of insurance on financial management.

**Tabel 2.: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	443.640	6	73.940	37.191	.000 <sup>b</sup>
	Residual	45.727	23	1.988		
	Total	489.367	29			

a. Dependent Variable: Financial behaviour (Y)

b. Predictors: (Constant), Insurance Literacy (X6), basic knowledge of personal finance Management (X1), basic knowledge of SMES financial management (X2), financial Literacy (X3), Investment Literacy (X5), literacy and Savings on SMES (X4)

**Table 2 testing seventh hypothesis (H7)**

Based on the output above known significance values for the influence of X1, X2, X3, X4, X5, X6 simultaneously against Y is  $0.000 < 0.05$  and the value F count  $37.191 > F$  table 2.54 so that it can be concluded that H7 is acceptable which means there is the simultaneous influence of financial literacy knowledge on financial management.

**Tabel 3. Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.952 <sup>a</sup>	.907	.882	1.410

a. Predictors: (Constant), Literacy for Insurance (X6), basic knowledge of personal finance Management (X1), basic knowledge of SME financial management (X2), financial Literacy (X3), Investment Literacy (X5), SME loans and Savings Literacy (X4)

b. Dependent Variable: Financial behaviour (Y)

Based on table 3 of the above-known R Square value of 0.882, it means that the simultaneous influence of the knowledge variable of financial literacy to the financial management variable is 88.2%.

**IV. DISUCSSION AND CONCLUSION**

The results of the research and data processing explain that there is the influence of financial literacy knowledge variables on financial management variables. Good financial literacy can maximize the role of available financial products such as savings, credits, investments and insurance. The feeling of financial competence is demonstrated through the skills demonstrated in practices and habits formed in the daily and long-term financial management [17].

Financial management in relation to financial behavior or human behavior in regulating personal and business finances [18]. Evidence of a person's practice has been doing financial literacy in general is the use of cash, credit, and allocate savings. If financial management is not good it will impact social negative for himself in a long time. [20]. This is due to the

low financial literacy owned and resulted in a lot of mistakes and actions that are less precise, such as saving enough to prepare funds for education and business development. The well-executed and responsible financial behavior is felt directly by individuals and communities because the economy is increasing and prosperous. For every household that has such behavior, happiness and financial wellbeing can increase because it is generally a financial problem that causes the reissue of marriage relationship and become a conflict in households [21]. Most people think that the need for self-protection and property (insurance products) is less important than other needs that must be met first.

[22] A substantial energy of one's income affects financial behavior in making an inventory decision. The statement supported by the research [23] and able to determine the scale of priority needs not desire. [19] Also supports the results of this research because their research mentions that healthy financial behavior is demonstrated by planning activities, management and control of one's personal finances.

Contrary to the findings, [24] Financial literacy education has no influence on financial behavior. [25] Indicates that the revenue has no significant effect on inventory decision behavior. Explaining that financial literacy education does not affect financial management. The same thing on research [26] explained that the individual's higher income, the greater the level of consumption or purchasing power exceeds their needs, it reflects that the person is not aware of the benefits of an investment or raised for his future.

[27] Say that small and medium enterprises are not able to acquire or absorb new technology or develop their business on the global market if their management skills and accounting practices are low so that it will impede them to obtain a business funds intake. [28] Explaining that managerial ability affects business planning and the ability to acquire funding sources for their business. [29] Lack of capital is a major problem in small business people, because it is done individually that relies on the capital of the owner. Say that small businesses prioritize experience in improving their business performance, rather than making financial reports. Furthermore, necessary financial management education aimed at the farmers to know the resources of funds, financial statements, cash management and related to financial management, financial records and financial planning so that the bank can distribute credit to business people, especially in agriculture.

Therefore, low financial literacy without any evidence of recording of business transactions will complicate the banking and business people. Additional disbursement of capital will provide injections to increase the turnover of funds. The level of knowledge and ability to manage a good personal or family finances will be able to direct someone to manage the finances well, so that it will not have financial problems in the future and is said to already have the ability to determine the scale of priority needs instead of desire in the use of money owned.

This study recommends further research to examine. In addition, it is suggested educational activities to farmers in East Java province to educate the knowledge of the concept of monetary value. This will enhance the basic understanding of farmers in taking into account or estimating changes that impact the business businesses and more familiar with the banking financial products in this case bank loans. If the farmers have increased the knowledge of the basic concept of banking finance, then hopefully they can manage the financial business for the better.

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