

## **Financial Literacy in Indonesia**

Arief Yulianto<sup>1</sup>, Hari Bhakti Mardikantoro<sup>2</sup>.

*Faculty of Economics, Universitas Negeri Semarang*

*Faculty of Language and Arts, Universitas Negeri Semarang*

*Corresponding Author: Arief Yulianto*

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**Abstract:** *This article aims to describe (1) how the supply side in financial literacy (2) how the demand side in secondary education and higher education*

*improved financial literacy has been balanced from the side of demand and supply. from the demand side, education on financial literacy has started from the secondary school through the subjects PKWU. in higher education, courses of financial management must be taken in the faculty of economics. while on the supply side, the government has been expanding public access to banking*

**Keywords:** *Financial Literacy, Supply and Demand Side*

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### **I. Introduction**

Literacy defined ability read, write and the skills to apply the ability to calculate so that financial literacy can be defined ability in financial management. Financial literacy is the ability to understand the knowledge and skills to manage financial resources to achieve well-being. So in addition to the competency skills expected, are also required knowledge in financial management. However, if the competence of knowledge and skills is not used wisely (without based on social skills and spiritual) it will have an impact on the interests of the egocentric. The motives and actions carried out will only be based on economic interests without regard for the norm of the spiritual and social

This article aims to describe (1) how the supply side in financial literacy (2) how the demand side in secondary education and higher education

#### **Demand Side: Secondary Education**

2013 curriculum to equip learners in Secondary Education with entrepreneurial abilities who are born and grow in the real sector (Ministry of Education and Culture, 2014)<sup>1</sup>. Beginning with the observation of existing products in the market and their characteristics, analysis of the structure of the components forming the product, the analysis of the structure and series of processes along with the necessary equipment, including market analysis, costs, and prices. To support the wholeness of the understanding of learners, learning combined with the learning of a Craft so that students are not only able to generate creative ideas but also realize them in the form of a prototype real work and followed up on the activities of the creation of a market to realize the economic value of such activities.

As part of the Curriculum 2013, the learning of Craft and Entrepreneurship for students in Secondary Education must include activities and learning materials that are intact can improve (a) KI-1 to the Core Competence of a spiritual attitude (b) KI-2 to Core Competencies social attitudes

(c) KI-3 to the Core Competency of knowledge (4) KI-4 for Core Competency skills.

The matter of financial literacy or financial is part of the learning PKWU and contribute to the formation of the attitude and character of an entrepreneur. The presence of the competence of financial literacy possessed by the entrepreneur, then it would be wise to manage and appreciate money. This will have an impact to the management of the business is better in the long term

Teacher PKWU has a strategic role in improving financial literacy for students, therefore in this research is to describe the competencies of financial literacy teachers PKWU in Semarang

#### **Demand Side: Higher Education**

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<sup>1</sup>Naskah Pembelajaran Prakaryadan Kewirausahaan Kurikulum (PKWU) 2013 di SMA. Kementerian Pendidikan dan Kebudayaan, 2014

The college has a strategic role through learning activities that increase financial literacy in Indonesia. The financial literacy index in Indonesia only by 21.7%, compared with the penetration in the Philippines that has reached over 30% and Malaysia 60-70% (the FSA in Herawati, 2015). The role of higher education will produce students and graduates who are able to educate herself and communities about financial literacy that is optimal.

Various learning methods have been developed to improve financial literacy such as (a) financial education/counseling centers (b) peer to peer programs (c) programs delivered by financial professionals (d) distance learning programs to increase financial literacy (Alban et al., 2014). Yoshino et al (2015) revealed still encountered low financial literacy not only on the countries with a per capita income high, but is also encountered in countries with a per capita income of medium and low.

Financial literacy in Indonesia starting from education in schools until someone is not using money in everyday life. Research pentingnya literacy in schools such as Johnson (2007) in Dewi et al (2014) outlines the financial education has a very important role for students to have the ability to understand, assess, and act in their financial interests. Reinforced by research Lutfi and Iramani (2008) in Dewi et al (2014) stated that education in financial management significantly affect financial literacy. More than that, financial education is also important because the decision of the student financial very important role for their financial condition during the lectures and even the effect on their lives after college graduation (Cude&Kabaci, the Financial Education for College Students, 2012 in Dewi et al 2014). Financial difficulties, for example because of the debt, can make students to change the plan of their career, because when pressed by financial needs, they will rule out the idealism to get the job quickly and for a higher fee. In addition, workers who do not have financial literacy sufficient tend to spend more hours of productive work they are to take care of financial problems on their personal (Vitt et al., 2000 in Dewi et al 2014). However, armed with the financial literacy enough, they can organize their life in the future better; and can prosper themselves, their families and the environment around them.

Financial literacy related to one's competence to manage the financial. Financial literacy is defined as knowledge and understanding of the financial concepts, skills, motivation and confidence in applying some of the knowledge and understanding that are arranged in making effective decision on the scope of the financial context to improve the financial well-being of society and the individual as well as allows to participate in the economic life of the

Developed countries with per capita income is high, tend to be able to use resources to develop learning methods in order to produce graduates who have the literacy rate is better.

Financial management must be taken of students at the Faculty of Economics and is the main course in the form of financial literacy. But financial literacy of the Faculty of Economics were found to be still low (Herawati, 2015).

Yulianto (2017) conducted a study with a logit model at the Faculty of Economics Unnes has four departments namely education, economics, management, accounting and economic development. FE Unnes set of courses in financial management as a compulsory subject for students. The substance of the subjects of financial management is to discuss about the functions of investment, financing, dividend and asset management in the company. However, this material implicitly also useful in making financial decisions personal. Yulianto and Slamet (2018) conducted a study on the customer behavior clever and find the same results. It means that equitable access is only done on the supply side not the demand side.

Until now there is no consensus of academics about the instrument raw to measure financial literacy. Nidar and Bestari (2011) and Jumpstart (2015) outline 1) Basic personal finance 2) income and spending 3) credit and debt 4) saving and investment 5) insurance. Yoshino et al. (2015) outline the in the (a) compound interest (b) inflation and (c) diversify the risk. Model Jumpstart has been widely used in some countries and sectors, so it is adopted in this study.

Basic Personal Finance covers a variety of basic understanding of a person in a financial system, such as the calculation of simple interest, compound interest, inflation, opportunity cost, time value, the liquidity of the asset. Income and Spending is how an individual manage their personal money. The more understanding about financial literacy the better the individuals to manage their personal money. Credit and debt management is the process of payment of the debt by involving third parties to help borrowers in debt. To make it easier to arrange debt is better if made the debt management plan. Debt management plan in the form of steps or process by which a third party helps the management of the debt of someone

Saving and Investmen is part of the public revenue which is not used for consumption activities, whereas part of the savings used for economic activity (producing goods and services) that benefit called the investment (investment). Insurance is risk management, i.e. if more and more person know and understand the knowledge then it will be easy to perform management of financial

Yulianto (2017) explain the results of the study, namely (a) the Material of the basic personal finance in financial management does not significantly affect the cognitive domain of financial literacy. This is because the

student is dominant in shaping attitudes and skills (b) the Material income and spending in the financial management and significant effect on the cognitive domain of financial literacy. This is due to the relatively matter of financial management boils down to the utilization of the balance sheet that contains income and spending. (c) Material saving and investment in financial management does not significantly affect the cognitive domain of financial literacy. This is because most of the students since from the middle school have been doing activities to save money and since from semester 1 has been conducting investment activity in the form of saving shares. So that students are more dominant in shaping the attitudes and skills of financial literacy (d) a Material insurance in the financial management and significant effect on the cognitive domain of financial literacy. This is due to the many parts in the financial management and discusses the risks so that the necessary protective from the risk in the company

## **II. Supply Side**

The financial inclusion policy of the Bank Indonesia and the OJK is a form of the expansion of financial services (financial service deepening) addressed to the society for the social economy within the limitations of access. So that the community can utilize the product and formal financial services as a means of saving money safe (keeping), transfer, saving and loans and insurance.

The target of the program of financial inclusion is the availability of financial services for all segments of society, with special attention to the poor, poor people productive, migrant workers, and residents in remote areas.

Sharma (2016); Grohmann and Menkhoff (2017) measure financial inclusion through two indicators, namely (a) access to financial service and (b) the use of financial service. For indicators of access to financial services, is (a) measuring access to bank accounts, the proportion of the population who have a bank account, including savings accounts and account mobile banking (b) measure the access of the debit card, i.e. the proportion of the population has debit cards and use for financial services.

As for the usage indicators access to finance are (a) the use of a bank account is the proportion of the population who have used the savings account in the past year and (b) the use of credit cards, i.e. the proportion of the population who use the debit card last year

Financial inclusion is defined as a state of easy access and not limited to the financial services (deposit money, credit, remittances, monetary decision) in a timely manner and at affordable cost to all sections of society in general and the socio-economic conditions weak in particular. Stein et al. (2011) estimates that more than 70 percent of the total population of the world do not have access to basic banking services.

The absence of access to banking is not limited and equality, at the level of macro-economy, will spur economic growth, reduce income inequality and poverty (Galor and Zaira, 1993; Michael and Sharon, 2014) and at the micro-economic level, it increases the level of income and consumption of households (Attanasio et al., 2011)

The presence of a positive impact on the macro and micro economy, then Financial Services Authority (FSA) issued the LakuPandai program (Financial Services Without the Office in the Framework of Financial Inclusion). This Program aims in the provision of banking services or other financial services through cooperation with another party (the agent bank), and supported by the use of means of information technology in services service. The lakupandai Program is expected to be improving macro conditions and the macro economy.

Background of the LakuPandai program in the community is (a) there are Still many members of the community who do not know, use or obtain services banking and other financial services. Among other things, because it resides in a location remote from the office of the bank or of any fees or requirements that are burdensome (b) the FSA, the banking industry, and the industry of other financial services is committed to supporting the realization of financial inclusion (c) the Government of Indonesia launched a program of National Strategy for Financial Inclusion (SNKI) in June 2012, one of which is branchless banking (d) Branchless banking that there is now need to be developed to allow banking services and other financial services reach out to all layers of society in Indonesia.

This Program aims to provide financial products that are simple, easily understood, and in accordance with the needs of the community who have not been able to reach financial services. In addition, it also launched a community economic activities that encourage economic growth and equitable development between regions in Indonesia

World Bank (2008) defines financial inclusion from the supply side, i.e. the access to the servicing finance and demand, namely the use of the service financial. The presence of servicing of finance are evenly distributed then the result will improve servicing of finance (financial services) to the community. However the supply side this will not work when the absence of demand, namely the demand for financial services.

Grohmann and Menkhoff (2017) conducted a study in 143 countries concluded that to improve financial inclusion not only need to be improved banking infrastructure, but also financial literacy for the community so that the demand side can be increased

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