

The Influence of Muslim Batik Entrepreneurs' Financial Literacy of The Banking Sector on Productivity

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Abstract: *The batik business in the Islamic community of the North coast of East Java is categorized as a micro and small business. One of the main problems of the business is capital adequacy. Capital adequacy is one instrument to run and increase productivity. Although the government has provided soft capital loans through banking instruments and rural development program, not all micro and small businesses are willing and able to access it. It is heavily relied on the entrepreneurs' financial literacy on banking sector and their willingness to use banking access. The survey results show that there are variations of the financial literacy level of batik entrepreneurs on banking sector. Batik entrepreneur who have high financial literacy were motivated to access the bank financing service and improve its productivity. Education and location play a significant role to financial literacy on banking sector.*

Keywords: *Financial literacy on banking sector; Capital adequacy; Banking access*

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Abstrak: Usaha batik di komunitas Islam pesisir utara Jawa Timur dikategorikan sebagai usaha mikro kecil. Salah satu masalah utama bisnis ini adalah kecukupan modal. Kecukupan modal merupakan salah satu instrumen untuk menjalankan dan meningkatkan produktivitas. Meskipun pemerintah telah memberikan pinjaman modal lunak melalui instrumen perbankan dan program pembangunan pedesaan, tidak semua pelaku usaha mikro dan kecil bersedia dan mampu mengaksesnya. Hal ini sangat bergantung pada literasi keuangan para pengusaha tentang sektor perbankan dan kemauan mereka untuk menggunakan akses perbankan. Hasil survei menunjukkan bahwa terdapat variasi tingkat literasi keuangan pengusaha batik di sektor perbankan. Pengusaha batik yang memiliki literasi keuangan yang tinggi termotivasi untuk mengakses layanan keuangan bank dan meningkatkan produktivitasnya. Pendidikan dan lokasi berperan penting dalam literasi keuangan di sektor perbankan.

Kata Kunci: Literasi keuangan pada bank; Kecukupan modal; Akses perbankan.

INTRODUCTION

Islamic entrepreneurs' recognition have long been discussed in Indonesia, even in the early days of its independence. Justus van der Kroef stated that local Islamic entrepreneurs were markers of the Indonesian middle class before World War II. (van der Kroef, 1954, 1960). Based on Indonesian historical records, the revival of Islamic entrepreneurs began in the 18th century. Islamic business people's entrepreneurial ability in the northern coastal regions of Java and Sumatra, has persisted, despite being eroded by the agrarian Islamic kingdom (Mataram) and Dutch colonialism (Ricklefs, 2008). During the Dutch colonialism, Islamic business people had to compete with foreign East Asian business people who were supported by the colonial government's discriminatory policies. With its Asian Islamic trade network, Islamic entrepreneurs have demonstrated their ability to compete and forming an Islamic trade union. (Kersten, 2015, 2017) The Islamic Trade Union is an association of batik entrepreneurs and traders in Solo. This union became *Sarekat Islam* (Islamic Union), one of the national movement organizations. (Kersten, 2017).

From the beginning of the independence period to the Sukarno government's end, Clifford Geertz noted how local Islamic business people took strategic positions in the post-colonial economic system. They continued to face their old competitors from the colonial era. (Geertz, 1963) A similar thing was found in the clove cigarette business in Kudus. (Castle, 1982). Although they have a good work ethic, they eventually lose out in the trade competition. Their weakness lies in their managerial and financial access. Foreign Eastern Entrepreneurs (Chinese) have the managerial ability and extraordinary financial access from the overseas Chinese network (Menkhoff & Gerke, 2012; Rae & Witzel, 2008; Seagrave, 2006).

Lacking experience and networking, Muslim local entrepreneurs and traders' power was forced to be in an inferior position rather than superior. Most of the businesses are categorized as micro, small and medium enterprises. However, the government is paying attention to micro and small entrepreneurs such as the Suharto's government enable the local businessmen to obtain loans through *Koperasi Unit Desa* (village unit cooperatives). The government directly channeled

funds through the Ministry of Home Affairs in the Savings and Loans Programme of PNPM Mandiri Perdesaan (*National Programme for Community Self-Empowerment in Rural Area*) (Rosfadhila et al., 2011). The fund is prioritized for women entrepreneur groups which has the same method with *Grameen Bank* pattern from Bangladesh (Yunus, 2007).

Data from the Ministry of Cooperatives and MSMEs (2017) show that despite absorbing a larger workforce (93.91%) and contributing 6.43% of employment that higher than large scale businesses, micro and small entrepreneurs still face the problem of capital adequacy. Micro, small and medium enterprises do not have sufficient capital to develop their business. The next problem is their products that have not been able to comply with market demands (see figure 1 in Appendix 1). (IFC World Bank Group & NORC at the University of Chicago, 2010) This case also occurs in several countries in the world, such as India (Durrani & Boocock, 2006) and European countries (Balling et al., 2009).

Appendix 1

The Joko Widodo and Yusuf Kala also created similar effort to tackle this problem (2014-2019). By using some regulation such as *Undang-Undang No. 6, 2014* about villages, the administration of Joko Widodo-Yusuf Kala paid great attention to participatory development for village communities. It had already begun during the SBY administration, which issued *PP No. 43, 2014* and *UU No. 6 of 2014*. In this government regulation, villages have the authority to form village-owned enterprises (*BUMDES*). The initial capital source can be taken from the village budget—one of the savings and loan activities. The term *BUMDES* is a development of the REP's (*Rural Economic Bussiness*) savings and loans under the *PNPM Mandiri Perdesaan's* scenario. *BUMDES* or REP Savings and Loans have played a significant role in the Indonesian micro and small businesses growth.

To open more employment, capital assistance for micro and small businesses is needed especially in rural areas. Based on a World Bank study as quoted by KPMG Indonesia (2015), the microfinance market share can reach 203 million people of Indonesia. It is also focused for the poor who earn \$ 4.5 per day (about two million rupiahs per month). The micro-entrepreneurs come from the lower middle class. The provision of microfinance should be able to spur them, thus increasing their welfare.

From several studies, the provision of microfinance has been proven effective in improving poor families' welfare. Ardiyati's research (2018) shows that women's savings and loan groups have prospered for mothers. The group provides welfare in two ways, providing capital loans and training. The training has triggered the entrepreneurial abilities of rural women. It is supported by the results of a survey of 120 savings and loan groups in Bantul Regency, Yogyakarta. The same thing was also found in Banyumas Regency community. As one of the provisions of PNPM Mandiri in Rural Areas, the borrowers are self-help groups formed to find revolving loan funds. The awareness of its members also determines the increase in returns and profits from loan interest (Rahajuni, 2015). Similar findings were obtained in Kebumen (Kurniawanto, 2014).

Government's capital provision program is very important because by citing Bank Indonesia data, 88.4% of bank loans from world banks were only absorbed by 0.48% of the total micro-businesses and 2.15% of all small businesses in 2008. With this policy, there is an increasing ability of the poor to participate in micro-businesses. Nevertheless, there were still entrepreneurs who borrow from non-banking such as loanshark or illegal moneylenders ([IFC World Bank Group & NORC at the University of Chicago, 2010](#)). The same findings show that they are trapped in illegal pawnshops, moneylenders, and social gatherings because they do not have banking access. One of the factors that causes people to use loanshark and illegal moneylender services is the absence of fees and administrative requirements. ([Fahrezi, 2019](#); [Nuryakin et al., 2019](#); [Rohmah, 2017](#))

This condition is inseparable from the entrepreneur's financial literacy on banking sector. Financial literacy is a person's ability to manage finances. This financial literacy has two dimensions. The first dimension is knowledge gained from education and experience related to the nature of personal finance. The second dimension is the ability and confidence to effectively apply or use knowledge about the concept of personal finance and its products ([Cude, 2010](#); [Huston, 2010](#)). People must have financial responsibilities and decision-making abilities; careers and financial planning; credit, debt, insurance and risk management; and saving and investing management ([Bush et al., 2012](#)). When discussing financial management, such as saving and investing, an individual needs to understand banking. This ability is termed financial literacy on banking sector ([Martinez, 2016](#); [Zou & Deng, 2019](#)).

The lack ability of financial literacy on banking sector cause people trapped in a non-banking system. This should have been learned early on in families and educational institutions ([Behrman et al., 2012](#); [Bhatia & Chatterjee, 2010](#); [Crain, 2013](#)). Otherwise, they will experience terrible things again in the digital age. Several technology-based financial systems (fintech) have made it easy to borrow without grants. ([Sarjito, 2018](#)). As a result, without careful planning, business actors are trapped in adverse schemes.

Several studies have shown that financial literacy, including financial literacy on banking sector, is a learning process and learning outcome from the sociology perspective. Therefore, the role of socialization agents, such as parents, peers, media, and cultural environment, is significant. From an early age, through parents' financial behavior, children are taught to understand economic problems ([Henchoz, 2016](#)). When it comes to socialization, variables of age, gender, length of socialization, and education are very influential.

Meanwhile, the cultural environment is more directed to the place of residence and culture. The role of the cultural environment in financial literacy, including banking, is also shown by [Martin Brown et al. \(2018\)](#) and [Sharma and Johri \(2014\)](#) ([Brown et al., 2018](#); [Sharma & Johri, 2014](#)). Environmental factors are suspected of causing literacy gaps between genders ([Bannier & Schwarz, 2018](#); [Fanta & Mutsonziwa, 2016](#); [Kiliyanni & Sivaraman, 2016](#)).

The problem of such financial literacy on banking sector must be examined whether it affects micro and small businesses' performance. If financial literacy on banking sector is low, business actors will have difficulty accessing capital through

bank's soft loan. Focusing on the case of batik entrepreneurs, this study understands the problem of financial literacy on banking sector. By including batik as a national identity and cultural heritage, the country has provided support to the batik industry. The batik industry is supported by the central, provincial and regency government.

RESEARCH METHODS

This research uses a quantitative approach, a survey of two districts in East Java: Bojonegoro and Tuban Regencies. The selection of these two districts represents the people of the North Coast of East Java. Based on its history and cultural ecology, the North Coast of East Java people has been developing entrepreneurship since the pre-colonial Dutch period. According to some historical researchers, the community has become part of a trading in the silk route. Excess rice products in the interior of Java and spices from the eastern Indonesia were collected and sold to traders in the North coast of Jawa (Damuri et al., 2014). The people of the North Coast of Java, on a religious basis Santri Islam, has long come out of a situation of subsistence and developed entrepreneurial abilities. This capability is demonstrated by the presence of more than twelve thousand small and medium-sized entrepreneurs in the district's world. Tuban District has reached around 12,234 micro, small and medium enterprises. More than ninety percent small industries in Kabupaten Tuban and Bojonegoro (BPS Kabupaten Tuban, 2019; BPS Kabupaten Bojonegoro, 2019)

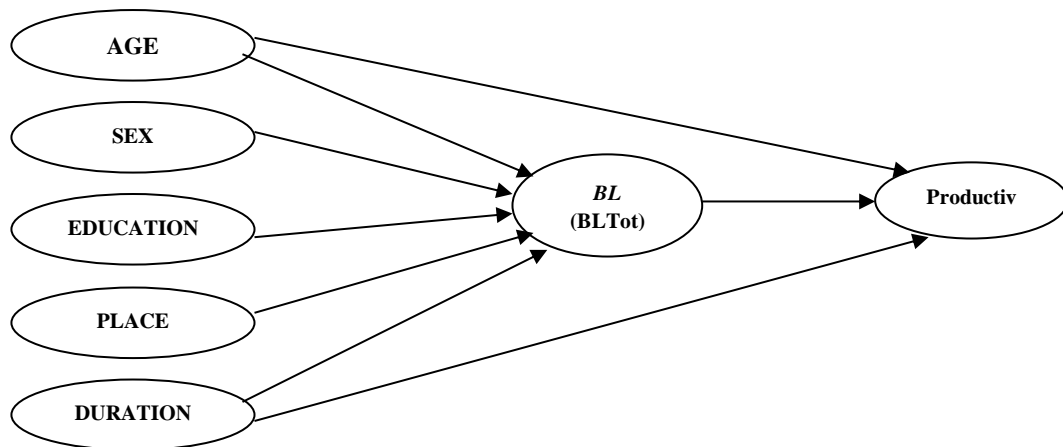


Figure 2. Research Model about Bank Literacy and Productivity

The unit of analysis is micro and small batik entrepreneurs in both districts. There are approximately 264 micro and small business and 80 of them were selected as sample based on random sampling. From the number of workers, batik entrepreneurs can be classified as micro and small businesses. Batik entrepreneurs are categorized as micro-scale based on its number of employees and business capital. The micro and small business have less than five people and net asset about no more than 50 million rupiahs (not included land and building). Furthermore, the data collection method are observation and interview to the entrepreneurs data

selected from district government database. Furthermore, the partial regression analysis by SmartPLS ver.3 is used to test several variables that affect the financial literacy variable (BLTot) and how financial literacy on the banking sector influences the productivity (revenue).

RESULTS AND DISCUSSION

Objective Conditions of North Coastal Java Batik Business

In the historical record, coastal communities are stakeholders for batik development. Batik was born and developed long before the Islamic empires in Indonesia. Batik is part of the silk route commodity. Therefore, classical batik pattern developed from pre-Islamic era and then continued to develop during the Islamic Mataram kingdom and its successors. Most of the batik industry centers in Yogyakarta and Surakarta (Solo), except Batik Pekalongan (North Coast of Central Java) and Batik Madura. Meanwhile, the development of the coastal Batik industry in the Tuban and Bojonegoro regions was unpopular. Nevertheless, it is started to be more popular and developed after the government's declaration to use batik as a pride national culture and a recognition from Unesco for batik as one of Indonesia's cultural heritage (Elliot et al., 2016).

Most respondents started the batik business when the local government, through *Dekranasda* (Regional National Crafts Council), cooperated with several companies, conducted training, and supported capital for the entrepreneurs. For example, an oil and gas company in Tuban conduct training as part of CSR (corporate social responsibility) activities (Gangi et al., 2018; Harness et al., 2018; Sen & Cowley, 2013). CSR is a corporate obligation following the Government Regulation of the Republic of Indonesia No. 47 of 2012 about Social and Environmental Responsibility. In Tuban, most batik industries have been established for less than ten years, and less than 10% are older than ten years (see Figure 3 in Appendix 2).

Appendix 2

As a consequence of this condition, most of the entrepreneurs are under 40 years old (65%). Meanwhile, the level of education is varied but most of them earned 12-years compulsory education program. Meanwhile, only 20% of the business operators are highly educated (earned bachelor degree). Based on the interview results, the batik entrepreneur who have higher education level, usually make their batik business as a side job. They have primary job such as teachers and civil servants in the regency government.

Moreover, entrepreneurs have access to various training programs organized by the district government and companies due to their close relationship with the government. Then, they shared this access to batik entrepreneur communities. Apart from fellow entrepreneurs, they also obtained training information through the PKK in the PNPM Rural program. Through the program, they also get savings and loan assistance as initial capital. However, 45% of entrepreneurs stated that they got initial capital support from from their closest relatives in the form of loan.

Knowledge and Involvement in Banking

When looking at the business' initial capital, it indicated that the government tries to provide support, as has happened in other countries (Rupeika-Apoga, 2014). (Rupeika-Apoga, 2014). However, micro and small business development programs must go through various local banking and non-banking institutions in the process to get the support. In the Suharto era, BRI and several other banks implemented soft loan programs for micro and small businesses to a profit-sharing system in the Islamic pattern, such as Bank Muamalat, as practiced by other countries (Durrani & Boocock, 2006). Besides, the government is also developing village unit cooperatives that are expected to synergize with these banks. In the post-Soeharto era, this strategy was revised with various programs, including rural business institutions' formation.

As a consequence of government policies, the community has various sources of financial institutions, ranging from savings and loan cooperatives, pawnshops, state banks, and private banks. Based on the result, most of the respondents under 18 years-old stated that they already knew about this program. Nevertheless, fewer respondents above 25 years-old, knew about this program. The number increased at non-government banks (see Figure 4 Appendix 3). Moreover, more private banks are located in the district capital.

Appendix 3

Based on the result presented in Figure 5 Appendix 4, there is a significant role of relatives who provide information to respondents about various financial institutions' services that can be accessed in their region. Meanwhile, parents do not provide a quite dominant role compared to relatives. This is because the financial problem is admitted as matters that their children do not need to know about about it as stated by several respondents, "*Children do not need to know the difficulties of parents, as long as they go to school. Do not be miserable like her parents*" (IK, 35 years old).

Appendix 4

Teacher also becomes the source of information about banking. Through curriculum that used at the elementary and secondary level, students are taught about the economic system in Indonesia, one of which is about banking. In elementary and junior high school, teacher taught financial institutions and their activities. This teaching gets more intensified when the students have social science as their major in high school (Compen et al., 2019; Mendikbud RI, 2016). Some vocational high schools also have mini bank laboratories to enable students learn by do banking activities.

The knowledge held is not always applied in action. When following the theory of innovation diffusion, one does not immediately accept and apply when knowing new things. People will consider the advantages and disadvantages. In short, they considers the risks that might occur because the future is uncertain. For example, to save their money, people entrust to government banks, but for seeking for funding through loan, people entrust to cooperatives and pawnshops. Besides

that, there are various functions offered by the bank such as facilitatating remittance through mobile banking or internet banking and property ownership through its mortgage loan (Figure 6, Appendix 5).

Appendix 5

Financial Literacy on Banking Sector for The Improvement Of Batik Business

Financial literacy on banking sector of batik entrepreneurs can not be separated from the influence of location (place) factors. This is indicated by the use of banking services only limited to state banks, even though they already know private banks' existence. The expansion of state banks during the Suharto era has provided knowledge and experience for the people who use bank services.

Table 1 Result of Path Analysis

Correlation between variables	Original Sample	T-statistics	p-value	Decision
Age (X1) □ BLTot (Y1)	-0.034	0.191	0.425	Not Significant
Sex (X2) □ BLTot (Y1)	0.119	1.039	0.151	Not Significant
Education (X3) □ BLTot (Y1)	0.254	2.126	0.018	Significant
Place (X4) □ BLTot (Y1)	-0.408	3.533	0.000	Significant
Duration (X5) □ BLTot (Y1)	0.173	1.548	0.063	Not Significant
Age (X1) □ Omzet (Y2)	0.146	2.556	0.006	Significant
Duration (X5) □ Omzet (Y2)	0.449	6.211	0.000	Significant
BLTot (Y1) □ Omzet (Y2)	0.409	5.979	0.000	Significant

Sources: Processing from Primary Data

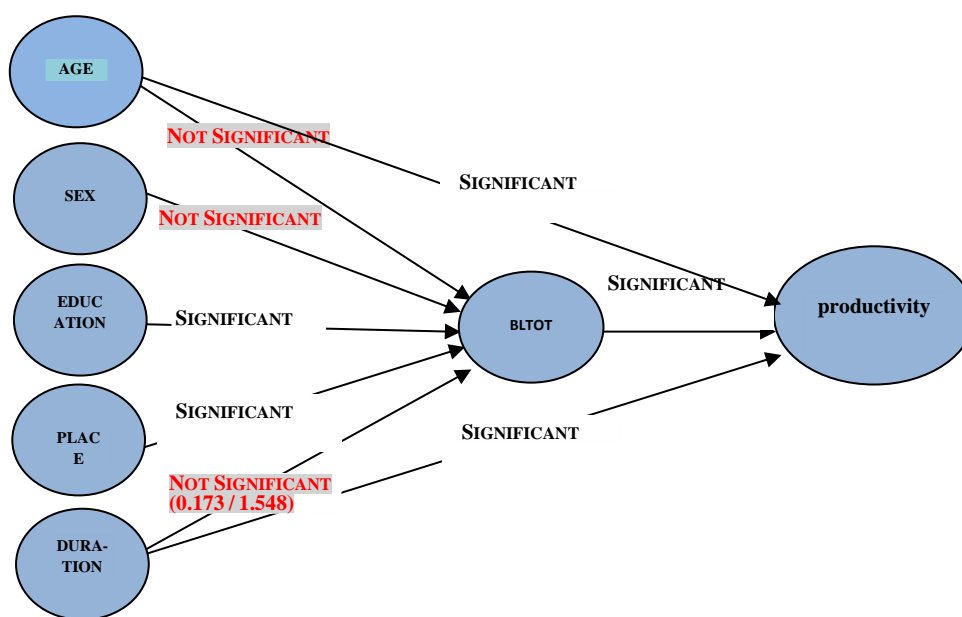


Figure 7. Partial Regression between Variables to BLTOT and Productivity (Production)

In Figure 7, we can observe the effect of literacy in banking on micro and small batik's productivity. The revenue is an indicator of the micro and small enterprises' development. When the business was declared successful, the revenue also increased. Table 1 shows that an entrepreneur age, gender, and company age do not significantly affect financial literacy on banking, but they affect turnover. Meanwhile, location and education influence financial literacy on banking.

Figure 7 explains that age, sex, and company age do not influence financial literacy on the banking sector but affect revenue. An entrepreneur's age and company age are positively related to his managerial ability. Meanwhile, female entrepreneurs more deeply explore and develop these businesses than male entrepreneurs. All four variables together affect productivity (revenue). R Square BLTot on productivity is 0.406 or 40.6%, while the three variables on productivity are 0.575 or 57.5%. Thus, Q Square is 0.748 or 74.8%. With financial literacy on the banking sector, entrepreneurs can access financial institutions' services. They could save their money, increase their capital, and expand their markets (Durrani & Boocock, 2006; Hsiao & Tsai, 2018; Zou & Deng, 2019). Meanwhile, education plays a significant role in improving financial literacy on the banking sector (Compen et al., 2019; Douissa, 2019; Moreno-Herrero et al., 2018; Rodrigues et al., 2019).

CONCLUSION

Capital adequacy is often become an obstacle for small and micro-businesses. Substantial capital facilitates entrepreneurs to increase production. Therefore, the government needs to develop a policy of development and banking to provide convenience for employers. However, the amount of capital often disbursed is not seeing the productivity of small businesses and the macro. This study shows that a large investment is not always in line with productivity. The productivity of small and micro enterprises is determined by financial literacy on the banking sector and other objective conditions. Entrepreneur's financial literacy on banking is determined by their educational background and location. Education has proven to provide an improved understanding of the banking system and gives entrepreneurs the ability to access a wide range of banking products.

With its religious, cultural context, the Islamic society, and educational institutions should not deny the existence of banking institutions as a source of funding. The government has also introduced the sharia-based banking institution. Therefore, educators in educational institutions also need to internalize knowledge, experience, and awareness about banking. Thus, the students as prospective entrepreneurs can access banking products wisely. Along with the internalization of banking institutions, banking institutions' presence at the local level also helps the public understand the function and banking products better. Therefore, habituation is the first step to introduce financial services in the banking sector. People should be aware that the banking services do not dwell on savings but can also be used for other economic activities, including obtaining a loan as an entrepreneurship capital support system.

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Appendix

Appendix 1

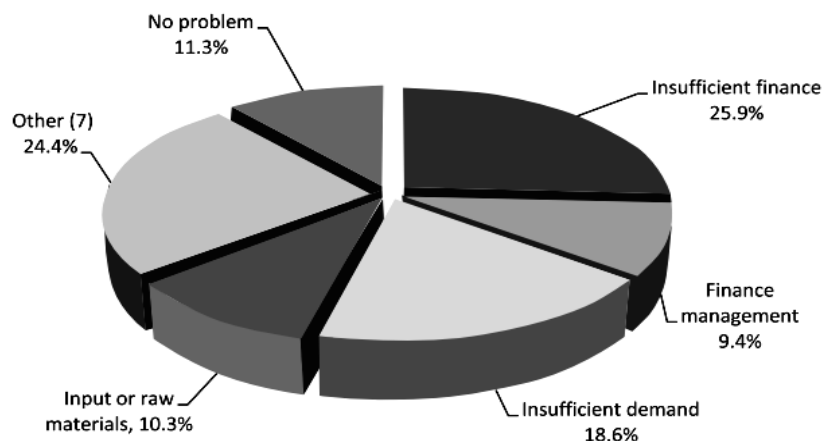


Figure 1. Problems faced by Indonesia' MSMEs
(IFC World Bank Group & NORC at the University of Chicago, 2010)

Appendix 2

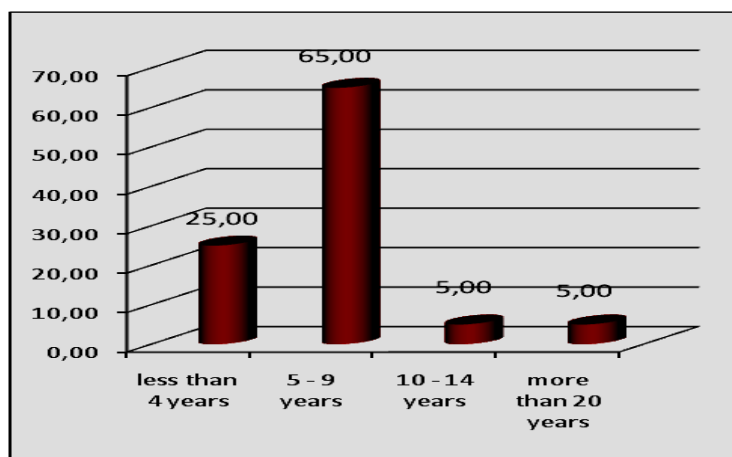


Figure 4. Micro and small business' age
Sources: Processing from Primary Data

Appendix 3

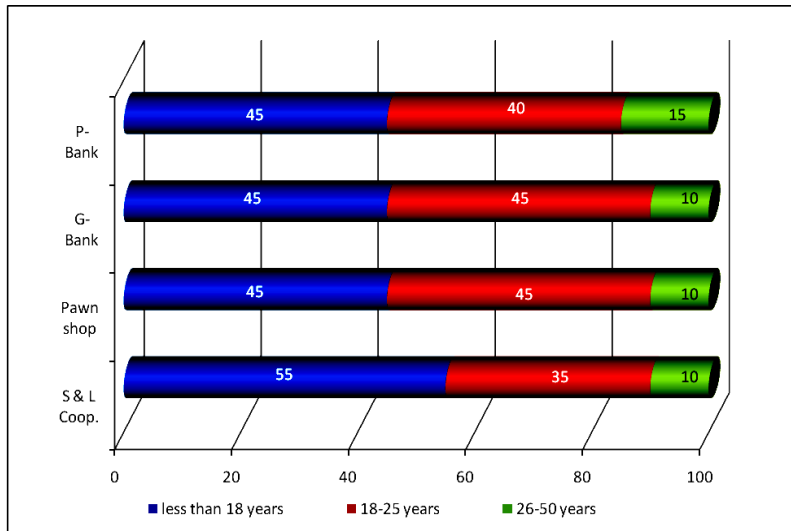


Figure 3. Financial Literacy on Banking Sector Based on Age

Sources: Processing from Primary Data

Appendix 4

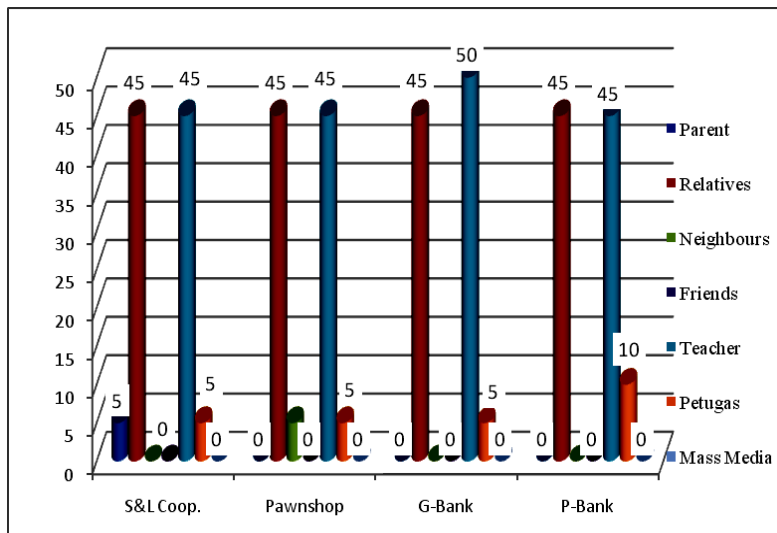


Figure 4. Information sources of financial institution

Appendix 5

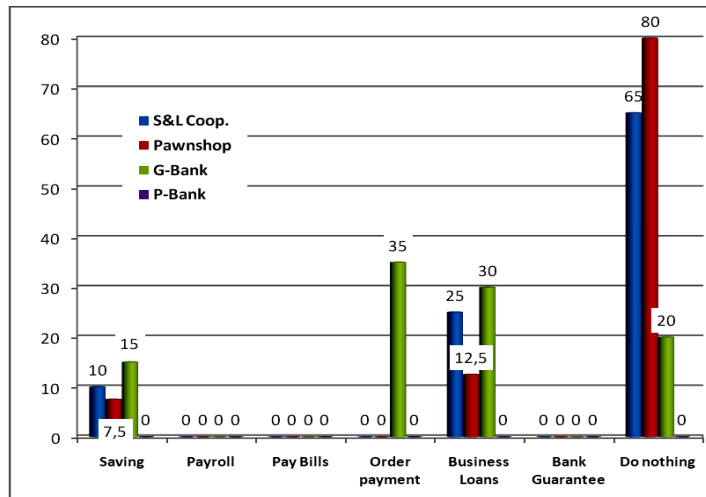


Figure 5. Financial Institution Services
Sources: Processing from Primary Data