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HOW FINANCIAL LITERACY OF MICRO, SMALL, AND MEDIUM ENTERPRISES' OWNERS AFFECTING BUSINESS PERFORMANCE AND LEVEL OF INDEBTEDNESS: A SECONDARY RESEARCH

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Abstrak (indonesia)

Latar Belakang: Literasi keuangan adalah salah satu keterampilan penting untuk mengelola bisnis secara efisien. Oleh karena itu penting untuk meneliti hubungan antara literasi keuangan, pinjaman FinTech (P2P), kinerja bisnis, dan tingkat hutang.

Tujuan: untuk menerima pembiayaan untuk pasar yang kurang terlayani.

Metode: metodologi kualitatif digunakan dalam penelitian ini, yang ditinjau dan dievaluasi baik dalam materi cetak maupun elektronik yang dikirimkan melalui internet (Bowen, 2009). Desk study dipilih karena memberikan gambaran yang lebih luas dalam memberikan pemahaman tentang keterkaitan antara literasi keuangan, kinerja usaha UMKM, dan tingkat utang.

Hasil: Hasilnya adalah peminjam pinjaman peer-to-peer dan peminjam non-peer-to-peer lending buta huruf, dan orang-orang dengan literasi utang yang buruk memiliki utang dalam jumlah besar dan berpotensi menimbulkan lebih banyak masalah, yaitu utang berlebih.

Kesimpulan: Tingginya tingkat perusahaan kecil di Portugal memiliki pengaruh positif untuk meningkatkan kinerja bisnis mereka setelah menerima pembiayaan dari platform pinjaman Peer-to-Peer. Sedangkan area kinerja bisnis adalah kemampuan perusahaan untuk tumbuh dan melakukan investasi, kemampuan perusahaan untuk melakukan leverage keuangan, dan juga mempengaruhi hubungan hutang dan biaya hutang.

Kata kunci: literasi keuangan; pinjaman FinTech; kinerja bisnis; utang berlebih dan UMKM.

Abstract (English)

Background: *Financial literacy is one of the essential skills to manage a business efficiently. It is therefore important to examine the relationship between financial literacy, FinTech lending (P2P), business performance and debt levels.*

Objective: *to receive financing for underserved markets.*

Methods: *A qualitative methodology was used in this study, which was reviewed and evaluated in both printed and electronic materials sent via the internet (Bowen, 2009). The desk study was chosen because it provides a broader picture in providing an understanding of the relationship between financial literacy, MSME business performance, and debt levels.*

Results: *The result is that peer-to-peer lending borrowers and non-peer-to-peer lending borrowers are illiterate, and people with poor debt literacy have large amounts of debt and potentially cause more problems, namely excess debt.*

Conslusion: *The high rate of small companies in Portugal has a positive influence on improving their business performance after receiving financing from Peer-to-Peer lending platforms. While the area of business performance is the company's ability to grow and invest, the company's ability to leverage financially, and also affect the relationship of debt and the cost of debt.*

***Keyword**s: financial literacy; FinTech loans; business performance; excess debt and MSMEs.*

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INTRODUCTION

The Micro, Small, and Medium Enterprises (MSMEs) sector has been regarded as the engine of growth for which it is particularly crucial for the future economic success in many emerging nations, including Indonesia in particular. According to the most recent nationwide official report from the Indonesian Ministry of Cooperatives and SMEs in 2019, for example, Indonesian MSMEs accounted for an average of 99% of all businesses and absorbed almost 97% of the national workforce, contributing 61.07% or approximately Rp 8.573,89 trillion to the country's Gross Domestic Product (GDP) (Ayem & Wahidah, 2021).

The COVID-19 crisis is pushing and accelerating the adoption of digital solutions by MSMEs, which has many positive effects, such as the creation of new revenue streams and the elimination of unnecessary costs in operational businesses of MSMEs. Digital solutions, such as financial technology, can increase financial inclusion by bridging the gaps in MSMEs' historically acknowledged limited access to formal finance (Pratikno & Pattinussa, 2022). According to the Indonesian Financial Services Authority (*Otoritas Jasa Keuangan* or OJK), the level of public financial inclusion is still relatively low, particularly outside of Java, where approximately 51% of the adult population, or approximately 95 million Indonesians, are still classified as not having a bank account or an account with a financial service institution (Pinto & Arora, 2021).

As of September 2017, only 22,45% of MSME owners had bank accounts, which account for 14,3 million bank accounts out of a total of 62,9 million MSMEs in Indonesia. Additionally, 49 million MSMEs are considered not eligible to receive formal financial institutions' credit disbursement (Wardhono, Modjo, & Utami, 2019). Based on research conducted by Taghizadeh-Hesary et al. (2018), small firms often face structural disadvantages compared with larger companies such as a lack of collateral which hinders the chances of small businesses raising business financing from banks. To support the previous statements, according to Wardhono et al. (2019) in their paper published by Asian Development Banks, banks have difficulties verifying between healthy credit risk MSMEs and risky ones usually due to the asymmetry of information such as the lack of credit data, bankable collateral, and basic accounting information (Taghizadeh-Hesary, Yoshino, Charoensivakorn, & Niraula, 2019).

Moreover, as stated in Central Bank of Indonesia Regulation No. 15/2/PBI/2013, the Bank sets a limit of Non-Performing Loan Ratio target at 5%, while only getting permission to have less than a 5% Non-Performing Loan ratio, which discourages banks from lending to MSMEs. This situation creates the opportunity for digital infrastructure to tap into (Eça, Ferreira, Prado, & Rizzo, 2021). As stated by the Vice President of Indonesia, Ma'ruf Amin in his speech at the 3rd Indonesia's Fintech Summit 2021, Indonesia's digital finance will grow eight times in 2030, from around IDR 600 trillion to IDR 4.500 trillion. This phenomenon has been largely driven by several key factors, including growth in mobile internet penetration, the rise of digital merchants and e-commerce, and the proactiveness of governments and Indonesian Authorities (Gemilang & Nurdin, 2022).

As reported by Asian Development Bank, there are four main types of fintech (financial technology) products in Indonesia in accordance with their respective business models: (1) digital payment; (2) online lending; (3) digital financial innovation (DFI) products (e.g., market aggregator, blockchain, and credit scoring); and (4) equity crowdfunding (ECF) (Bank & Fund, 2017).

The combination of different business models, technology, and innovative approach inside Fintech Peer-to-Peer Lending is able to address the challenges that traditional lending providers face. In 2018, at least 70% out of the total of around 60 million MSMEs still do not have access to microcredit, indicating there is still unutilized financing capacity (Gopal & Schnabl, 2022). Without better access to financing, Indonesia will lose the opportunity to stimulate MSMEs growth which is supposed to be beneficial to economic growth. Thus, the emergence of Fintech lending creates the avenues of hope to tap into the low loan disbursement in helping to raise the much-needed access to credit among individuals and productive sectors.

Fintech lending is acting as a liaison between parties who need loans (borrowers) and lenders (Abdullah, Rahman, & Rahim, 2018). At present, the number of FinTech lending companies in Indonesia is expanding. With more players, customers also have more diverse choices. As noted by Indonesia Financial Services Authority (Otoritas Jasa Keuangan/OJK), the number of registered peer-to-peer lending businesses as of March 2022 stands at 102 companies, consisting of sharia-based FinTech startups and 95 conventional-based enterprises. According to Fintech Lending Statistics, loan disbursement to borrowers increased significantly from IDR 9.384,41 billion to IDR 14.957 billion within 8 months (using 2021 data) with slightly more than 50% of them coming from productive sectors (Hally, 2016).

The highest loan distribution occurs in the wholesale and retail trade sectors, which accounted for approximately 21 percent of the total loan disbursement of productive sectors (IDR 1,704 billion out of IDR 8,163 billion respectively). In accordance with the report published by PWC (2019), Fintech Lending is estimated to generate IDR 45 trillion of Gross Value Added through productive loans from 2018 to 2019 in Indonesia. In general, credit access will improve MSMEs' liquidity management and provide leverage that enables capital expansion, subsequently resulting in better business capacity and productivity (Rosadi, Noviandika, Walters, & Aisy, 2022).

According to literature published by Eca et. al (2022), micro and small enterprises in Portugal which obtain funding from FinTech Lending have significantly higher growth rates of assets, net working capital, number of employees, and sales and are able to increase their short-term and long-term leverage compared to micro and small enterprises that do not. According to Wirdiyanti (2019) and Twyeafur and Hafiz (2012) borrowers expressed positive attitudes toward credit funding proven by the increased profits, and savings values of the MSEs after receiving micro-credit (Kumar, Thambiraja, Karuppanan, & Subramaniam, 2022).

Although there is no correlation between the level of education of MSME business owners on the business profits of recipients of credit (Husnah et al.,2018), in order to aid the fast-changing P2P Lending environment, MSME business owners need to improve their financial literacy to take the most advantage of economic opportunities. Unfortunately, according to research conducted by Vitt et al (2000), the financial literacy of people in developing countries is still lacking, hence preventing people from dealing with financial complexities and preventing them from making the best decisions according to their needs, due to insufficient information. In Indonesia, the growth of the financial inclusion index has not been followed by a proportional increase in the financial literacy index. Based on the National Financial Literacy Survey conducted by OJK, in 2019 the financial inclusion index reached 76.19% and the financial literacy index reached 38.03% from previously 67.82% and 29.66% respectively in 2016 (Indonesia, 2019). There are many studies regarding financial literacy and small business performance, for example, research conducted by Kimani & Ntioti (2015), explains that Financial literacy allows small business owners to manage their business finance better by making projections of income and expenditure, thus concluding that debt management and budget planning eventually had a positive effect on business performance. Also, Goswami et al (2017) explains that people with higher levels of financial literacy can solve financial risk problems efficiently and make appropriate business decisions (Hsueh & Kuo, 2017).

However, while the difficulties of getting financing ameliorated through P2P Lending, with low levels of financial literacy among adult people in Indonesia, including MSMEs owners, it is important to study whether MSMEs owners take advantage of P2P Lending to expand their business. The research about relation whether financial literacy has a substantial impact on MSMEs' abilities to manage their debt is also crucial due to the potential crisis of over-indebtedness for both individuals and enterprises lingering, as proven by studies conducted by Krishnaswamy & Ponce (2010), Schicks (2013), Maurer & Pytkowska (2011), and recently aggravated by Covid-19 Pandemic (Husnah, Antara, Rauf, & Suparman, 2018).

RESEARCH METHODS

Throughout data collection and analysis, qualitative methodologies were utilized in this study, which is reviewed and evaluated both in printed and electronic internet-transmitted materials (Wirdiyanti et al., 2022). A desk study was chosen because it affords a broader picture in offering an understanding of the interconnectedness between financial literacy, MSMEs' firm performance, and indebtedness level. A desk study based on prior research (either quantitative or qualitative) and pertinent documents, relating to a database of financial literacy and the performance of MSMEs firms was created. Desk research will also incorporate online observation whenever the authors necessary to identify appropriate actors for correspondence, statements made by key stakeholders, and programs published on official social media accounts and official websites (Goswami, Hazarika, & Handique, 2017).

For the most part, the linking terms "financial literacy", "leverage," "level of indebtedness", "financing", "MSMEs,", "debt", and "small business performance" are what are used in search engine portals to identify the publications and sources in question. In order to arrive at findings that are in line with the findings of this study, this study has disregarded previous research that concentrates primarily on the amount of debt (or the level of indebtedness) and the likelihood of default (or the default risk). Even if the performance of MSMEs' is the primary focus of these studies, little attention is devoted to the aspects of financial literacy that pertain to financial inclusion (Muraga & John, 2015).

RESULTS AND DISCUSSION

A. Financial Literacy, Peer-to-Peer Lending and Business Performance Financial Literacy and MSMEs Business Performance.

Financial literacy drive the decision-making processes, such as the payment of bills well timed; better debt management which improves the creditworthiness of potential borrowers to well-being, and poverty reduction. Good financial literacy also serves as a controller of one's financial future, choosing financial products and services effectively, and reducing vulnerability to deceptive schemes (Krishnaswamy & Ponce, 2010). Likewise, it is important that a manager or business owner have a certain level of knowledge related to the available information to make a good and rational decision to manage their firm (Schicks, 2014).

According to Masiyamoorthy, et. al (2017:428), a firm's performance implies various meanings, including growth, survival, success, and competitiveness. Performance can be characterized as the firm's ability to create acceptable outcomes based on how firms actually operate. The current study discussing the correlation between financial literacy and small business performance is conducted by Yakob, et. al; (2021:72). Through adopting the method from previous research (Sabana, 2014:41), Yakob, et. al (2021:81) assess the financial literacy that MSMEs business owners possessed measured using 5 dimensions as follows: 1) knowledge regarding financial management; 2) Savings literacy; 3) Debt Literacy; 4) Investment Literacy; and lastly 5) Insurance Literacy. The result is consistent with the findings of Sabana (2014:143) that financial literacy has a significant effect on SMEs' business performance (Anderson, Kent, Lyter, Siegenthaler, & Ward, 2000). To elaborate, the higher level of financial literacy the more capable SMEs manage their finances, in terms of debt management, savings, and investment, as well as risk management by utilizing insurance strategically. However, a research titled Factors Affecting the Financial Performance of Micro Small and Medium Enterprises (MSMEs) during the Covid-19 Pandemic in Yogyakarta City, finds that the quality of financial reports does not have a considerable effect on small business performance. What causes this phenomenon is that MSMEs are still unable to practice the completeness of financial reports, hence it is difficult to fulfill the reliability of their financial report. This paper also finds the financial report that MSMEs created has the lowest quality indicator (Hansen, Mowen, & Heitger, 2021). Meaning the financial literacy of MSMEs to construct an accurate financial report is considered as low.

B. FinTech Lending, Firm's Growth and Financial Leverage

A working paper written by Afonso Eça, Miguel A. Ferreira, Melissa Porras Prado, and A. Emanuele Rizzo is trying to obtain a better understanding of the characteristics of FinTech Lending borrowers, particularly Portugal's small and medium enterprises (SMEs), and the substantial impact of their business after receive financing. By utilizing data from one of the P2P Lending Platform in Portugal, they are able to come up with findings as follows (Eca et.al.,2022): Firstly, SMEs that receive funding from FinTech lending platforms have a lower level of overdue debt in their financial report, have access to the bank, and have higher profitability compared to other SMEs, who got rejected by Peer-to-Peer lending Platforms. Meaning, P2P lending platforms prefer financing less riskier firms and reject SMEs that are considered risky borrowers. Secondly, they convey that small business firms in Portugal that apply to the FinTech Lending Platform are associated with less stable banks, namely fewer deposits, lower low liquidity of assets, and smaller capital ratios (Eca et al.,2022:18). Therefore, one of the reasons small firms decide to apply to the FinTech Lending platform is to diversify their disclosure to banks that are less able to cope with the economic shock and have a tendency to cut lending activity during crises. Thus, banks' quality and resilience to economic turbulence are determinant factors for SMEs accessing P2P lending platforms (Masiyamoorthy, Vidhya, & Rajendhiran, 2017). Thirdly, Eca et al. (2022) also explore whether financing from Fintech lending has a substantial impact on SMEs business compared to the rejected applicants. The approaches they are using are: 1) measure the firms' growth and investment, 2) measure the firms' financial leverage and debt structure, 3) measure the debt relationships the firm has with banks and P2P lending platforms, 4) measure the effect of the cost of debt (Bowen, 2009).

Impact on the firms' growth and investment; Firms' growth after receiving financing from fintech lending can be calculated using the growth in terms of SMEs' assets, SMEs' net working capital (NWC), number of employees, sales, capital expenditure (CAPEX) over total assets; and return on asset (ROA). Eca et al. (2022:37) find that small businesses experience a positive impact after accepting FinTech lending: asset growth increases by 8,2%; a 5,1% increase in employment growth, and a 5.8% points increase in sales. In terms of investment in capital expenditure also experienced a 1,5% increase and no significant growth in terms of ROA (Hanggraeni, Ślusarczyk, Sulung, & Subroto, 2019).

Impact on the firms' financial leverage and debt structure; The purpose of this approach is to gain knowledge on how FinTech credit changes the SMEs' financial leverage and debt structure in both short-term and long-term periods (Nejati, Amran, & Ahmad, 2014). Hereby are financial ratio used by Eca et al.(2022:338) to calculate financial leverage and liability (include the amount of loan received from P2P lending platform and banks): the ratio of total debt to total assets (Leverage), the ratio of long-term debt to assets (Long-Term Leverage), the ratio of short-term debt to assets (Short-Term Leverage). The result shows that on average the availability of a P2P loan leads to a considerable increase in leverage by 4,9%. As for the debt structure, long-term bank leverage decreases by 6,4% while short-term bank leverage increases by 2,1% (Sudibyo, 1997). This explains that the emerging P2P lending platforms enable small businesses to expand their debt capacity and replace long-term bank lending with long-term FinTech lending, moreover, because P2P lending is unsecured debt, it also serves to retain the financial flexibility of SMEs (Sujatmiko, 2019).

Impact on the debt relationships that firm has with bank and P2P lending platform; To assess the relationships between SMEs accessing the P2B platform and SMEs accessing the banking sector, Eca et al.(2022) use the following indicators: SMEs' number of relationships (excluding new P2P lending platforms), the proportion of SMEs' debt by its top lender, the banks' ROA, the banks' deposits over assets; the banks' loans over assets; the banks' short-term assets plus cash over assets. Eca et al. (2022:40) find that SMEs experience an increase in terms of the number of lending relationships after receiving FinTech lending funding. To obtain more accurate results, the calculation does not include the new P2P lending relationship, hence the increase appears to be driven by the P2P loan allowing SMEs to add on a roughly 30% increase in relationship to the banking system. This study also finds that SMEs experience a significant decrease in the concentration of debt by a single bank as a consequence of accessing P2P lending (Senevirathne & Jayendrika, 2016). As mentioned previously, SMEs borrow money from less resilient banks. This assessment proves SMEs with a P2P lending loan manage to lessen their exposure to less resilient banks, increase their lending relationships and reduce debt concentration. However, the implication of relationships between SMEs that access P2P lending and SMEs' relationship with resilient banks do not show significant change (Servon & Bates, 1998).

Impact of the cost of debt; This study examines how firms use the funds earned through the P2B platform by calculating the SMEs' funding costs using the following dependent variables: the ratio of interest expenses over total assets, and the ratio of interest expenses minus the cost of P2B funds over total assets. The result is there is a significant and positive impact of P2B loans on the firms' overall cost of debt. This concludes that the emergence of FinTech lending has a positive impact on SMEs' growth and business leverage, particularly for small business owners with high financial literacy. Despite the importance of implementing financial reports as a performance measurement tool is very important, the practice to construct financial reporting among Indonesian MSMEs still considerably low (Syamsul, 2022:38), or does not comply with accounting regulations (Maulana et al., 2018:36), whereas the current practice is limited to the financial statements prepared on a cash basis (Andarsari and Dura, 2017:64), additionally, MSMEs owner does not separate their personal and business finance and just rely on their memories (OKANTA, n.d.). This phenomenon appears due to a lack of knowledge and understanding of business owners in terms of preparing financial statements (Samsiah and Lawita, 2017: 118) and another reason is they do not have enough time and resources to pay for services of an expert to organize their business finances (Aidha, 2019).

C. Debt Literacy, FinTech Lending, and Over-indebtedness Debt Literacy as a Component of Financial Literacy

The arrival of the digital financial services ecosystem in Indonesia has answered myriads of financial disputes experienced by MSMEs, one of which is getting credit to finance their business. Despite the many benefits of digital financial services in promoting financial inclusion, as documented by Sahay, et. al (2020), it does not automatically translate that all consumers are equipped with fundamental information about the products and services that they are using. Ignorance of the complexity in terms of financial products can make people lose money due to information asymmetry (Suleiman, Dewaranu, & Anjani, 2022).

In one example, Suleiman, et. al (2022) argues that even in the short-term period, consumers in financial services can make many potentially ill-informed financial decisions, further obtaining too much debt and becoming victims of illegitimate investment products due to their low level of financial literacy. In terms of debt behavior, people who are less financially savvy are reported to have an excessive debt load and are unable to judge their debt positions. Moreover, unlike those who lack financial knowledge, more financial-literate people have a tendency to pay the full balance of their credit card every month rather than just paying the minimum due (Lusardi & Tufano, 2015).

Debt literacy can be measured by using 3 approaches consisting of: (1) knowledge of interest compounding, (2) how to calculate credit card interest, and (3) application of time value money (Lusardi and Tufano, 2015:335), which was used by Hidajat (2021) to study the relationship between debt literacy, peer to peer lending and over-indebtedness in Indonesia. The over-indebtedness is assessed by the debt position of each respondent. The result of his research shows that the debt literacy of people in Indonesia is considerably low with an average of around 16% of 108 respondents understanding basic knowledge regarding interest compounding, credit card interest, and the value of money with detail as follows: only 33% of the respondents answered the right question regarding assessment about interest compounding. As for the credit card interest, only 5% of the respondents answered correctly, meaning the majority of respondents did not know that minimum payment of the credit card debt only reduces the loan principal and the loan interest will continue to be calculated and increased, thus the minimum due would never pay off the borrowed money. The third question about the time value of money was answered correctly by 10% of the respondents (Cardaci, 2018).

D. Debt Literacy in FinTech Lending Borrowers

Furthermore, still using the same assessment questions, Hidayat (2021) also found that borrowers of P2P Lending in Indonesia have very poor debt literacy (Hidajat, Primiana, Rahman, & Febrian, 2020). Only 16% of P2P Lending borrowers can respond to questions correctly about interest compounding, while there are 0% correct answers regarding credit card mechanisms, and around 9% of P2P lending borrowers can answer correctly about the time value of money. The result of the surveys elaborated in such a way: firstly, P2P lending borrowers do not understand the concept of interest accrual or the “rule of 72” calculation. The Rule of 72 is a simplified formula that calculates how long it will take for money (either debt or investment) to double in value, based on its compound interest (Sahay et al., 2020). The unfamiliarity of these calculations can be disastrous because the borrower can fall into huge debt. Hidajat (2021:407) finds that all of the P2P lending borrower respondents could not answer the second question correctly (Suryono, Budi, & Purwandari, 2021). They do not know that paying the loan principal will never clear the debt because the loan interest will continue to increase. The combination of not knowing this basic principle with easiness to receive loans from Peer to Peer lending platforms could lead to poor practices such as rolling over payday loans or multiple borrowing as reported in online news from Aljazeera (2022) and CNN Indonesia (2021) (Riswandi & SH, 2020). In other words, the innovation to lend money in a short time that FinTech Lending offers affects people's understanding of the Peer to Peer Lending platform to borrow on many platforms without considering the ability to pay. Lenders also blame the P2P loan platform for the indebtedness they experience because the lenders don't understand the consequences (credit risk) in the first place (Mutegi, Njeru, & Ongesa, 2015).

Continuing the research conducted by (Hidayah, 2022), only 9% of total respondents successfully answer the third question regarding the time value of money correctly (AMONHAEMANON & VORA-SITTA, 2020). This phenomenon indicates an understanding of the time value of money among Peer to Peer Lending borrowers in Indonesia is significantly low. A lack of understanding of the concept of the time value of money will trap people into falling into inimical payment options as the intention of asking the third question is to seek how skillful people compare payment options, and preference for a fixed payment (including interest and principal), which eventually reflect borrowers' behavioral biases, such as lack of self-control (Andersen, Duus, & Jensen, 2016). The majority of FinTech lending firms do not ask for any collateral which results in high-interest rates for each borrower (Jacobs, 2001).

Customers must also be prepared for some unpleasant treatment from debt collectors if they fall behind on their repayments (Lusardi & de Bassa Scheresberg, 2013). As of November 2018, Jakarta Legal Aid Institute (LBH) received 1.330 complaints from 25 provinces in Indonesia related to P2P Lending regarding billing methods based on the complaints received, they found at least 14 (fourteen) violations with classification as follows: (1) regarding high interest; (2) Violation to personal information to collect the debt including dissemination of personal data, distribution of photos and loan information; (3) Threats and sexual harassment, (4) Fraud activity namely unrecorded repayment to P2P Lending's system, wrong virtual account number, change the name of P2P Lending application without notice, which resulting snowballing debts over time (Yakob, Yakob, BAM, & Ahmad Rusli, 2021). In Indonesia regulation regarding the activity of Technology-Based Joint Funding Services (including Peer to Peer Lending Platforms) along with their consumers is issued by Regulation (POJK) Number 10 /POJK.05/2022. Even so, the violation of ethics is still found in Indonesia, as mentioned above, subsequently impacted the shame, and discomfort of their borrowers (Ferreira, Eça, Prado, & Rizzo, 2022)

E. FinTech Lending Borrowers and Levels of Over-indebtedness

To understand whether people have difficulties paying their debt, Hidajat (2021: 408) adopted the same method employed by Tufano and Lusardi (2015: 356) to assess the level of over-indebtedness through the survey with the following questions: 1) I have a lot of debt right now and difficult to pay it off, 2) I have the right amount of debt and do not have difficulty paying it off, 3) I have little debt and wish to get more, and 4) I do not know. 16,70% of respondents have financial difficulties, while 42,60% of respondents have enough debt and can repay. Moreover, 11,10% of respondents considered themselves to have little debt, and the remaining 29,60% of respondents were unable to judge whether they have too much or too little debt they answered they just did not know). This answer illustrates that the majority of respondents have debts (Sabana, 2014).

Following the survey conducted by Hidajat (2021:408), men (11,10%) are considered to have more financial difficulties than women (5.60%). Those who categorize themselves as having obtained too much debt also have bad debt knowledge. Only 9.30% understand the interest-compounding mechanism, and 0.90% have knowledge about the time value of money and payment options. No one knows how to calculate credit card interest. Debt literacy between P2P lending borrowers and non-P2P lending borrowers is indistinguishable. This depicts that credit management continues to have the leading effect on SMEs' loan repayment followed by bookkeeping skills, then budgeting skills, and financial analysis skills which show a positive relationship between financial literacy and loan repayment by SMEs (Mutegi et. al, 2015: 21).

Financial literacy training instilled bookkeeping skills in SMEs. This in return improved prospects of business expansion. To understand the effect of financial literacy in different SMEs, the respondents indicated the extent to which they agreed with the various statements. The statements were as accruals of having undergone the financial literacy training program. Mutegi et. al (2015) all finds the respondents agreed that their now-obtained skills in the maintenance of debtors and creditors ledgers increased after financial literacy training and this had a positive effect on business in terms of expansion prospects. The ability to carry out proper maintenance of purchases and sales ledgers increased and these were effective to tune heightened competitiveness. This on the other hand was complemented by the ability to maintain a proper payroll, which improved their business efficiency and effectiveness. Financial literacy afforded more skill to participants through many learning to balance the ledgers an). (Mutegi et. al, 2015)

CONCLUSION

This chapter summarizes the results of this research on the financial literacy level of MSMEs owners who received funding from P2P lending platforms and its relationship with MSMEs performance, and indebtedness level. The high level of small firms in Portugal has a positive influence to improve their business performance after receiving financing from Peer-to-Peer lending platforms. Whereas, the area of business performance is the firm's ability to grow and do investments, the firm's ability to do financial leverage, and also affecting debt relationships and debt cost. Furthermore, it is also found that loan receivers in Indonesia have poor debt literacy. The combination of accessing credit, including those from P2P lending platforms, with poor debt literacy resulting a pernicious implication that snowballs debts over time. Excessive indebtedness presents an important and widespread problem that endangers the financial well-being of many individuals and households.

Here are some recommendations the author could provide: Since there are significant relationship between MSME owners' financial literacy level with MSME performance in term of investment financial leverage, it is recommended that MSME owners enhance the improvement of their financial capability, to increase their chance of getting funding from resilient banks firms. Debt literacy to manage credit is also important to learn to minimize the chance of getting too much debt. Future research can emphasize the context of this study by conducting the primary research either qualitative or quantitative to capture the empirical data particularly MSMEs in both developed and developing countries.

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