FINANCIAL LITERACY: A DRIVER OF MSME SUSTAINABILITY WITHIN THE CIRCULAR-ECONOMY FRAMEWORK

Dian Primanita OKTASARI[1*], Winda WIDYANTY[2], Putri Renalita Sutra TANJUNG[3]
[1,2,3] Universitas Mercu Buana, Jakarta, INDONESIA
[*]dian.primanita@mercubuana.ac.id

ABSTRACT

This study presents findings from a community service program conducted by Team Community Service in Meruya Utara Village, West Jakarta, to enhance the competitiveness of micro, small, and medium enterprises (MSMEs). The program adopted an integrated approach that encompassed green financial literacy, digital marketing, and human resource development within the framework of a circular economy. A preliminary assessment indicated a low level of adoption of green business practices among the participants. Following a structured sequence of training (comprising a pre-test, training sessions, and a post-test), participants exhibited significant improvements in their understanding of green financial management, digital marketing strategies, and human resource competencies, as evidenced by the results of the post-test. A satisfaction survey conducted with 25 female respondents, comprising 40% housewives and 24% entrepreneurs, revealed that over 80% reported being "Very Satisfied" with the program's content, methodologies, and discussions. The model employed in this study consisted of five stages: needs assessment, training, field assistance, advanced evaluation, and sustainability. This model demonstrated measurable advancements in financial literacy, the adoption of circular economy principles, and the establishment of social networks among MSMEs. The findings suggest that integrated community service interventions can effectively empower MSMEs to adopt sustainable business practices.

Keywords: MSME, Financial Literacy, Circular Economy, Digital Marketing, Community Service.

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in Indonesia's economy, contributing over 60% to the Gross Domestic Product (GDP) and absorbing approximately 97% of the national workforce (Indonesian MSME, 2023). In the context of global competition, MSMEs are required to possess managerial capacity, including reliable financial management, to ensure business sustainability and enhance competitiveness. A sufficient level of financial literacy enables MSME actors to prepare accurate financial reports, make data-driven decisions, and optimally exploit market opportunities (Saldikawati, Pertiwi, & Utomo, 2023; Financial Services Authority [OJK], 2021). In line with this, strengthening financial literacy is also expected to serve as a foundation for MSMEs to adopt efficient and sustainable circular economy principles (LCDI Indonesia, 2024).

Although ideally, financial literacy should be a prerequisite for business success, the reality on the ground reveals a gap in understanding and financial skills. In West Jakarta, there are 2,204 assisted MSMEs that have obtained a Business Identification Number (NIB) as of 2023 (West Jakarta Industry, Trade, and Cooperatives Office, 2024). However, some entrepreneurs still face challenges in managing cash flow, prioritizing expenditures, and preparing financial reports that meet standards. The results of the National Survey on Financial Literacy and Inclusion (SNLIK) 2024 recorded Indonesia's financial literacy index at 65.43% and the financial inclusion index at 75.02% (OJK, 2024). High access to financial services does not always correlate with the ability to use them wisely, which ultimately has the potential to trigger less informed financial decisions and hinder business competitiveness.

Various previous studies underscore the role of financial literacy in enhancing MSME performance, whether through improved quality of financial reports, operational efficiency, or the ability to adapt to market changes (Lindananty, 2022; Oktasari, 2018, 2023; Oktasari, Nurjaya, & Karyatun, 2023; Jayanti, 2022; Ardila, Febriaty, & Astuti, 2021; Susan, Winarto, & Gunawan, 2023). Research also indicates that financial literacy contributes to the successful implementation of the circular economy, which prioritizes the 9R principles to minimize waste and maximize resource utilization (Siregar et al., 2024; Oktasari, Tanjung, & Amrina, 2024). However, studies that simultaneously investigate the relationship between MSME financial literacy and the application of circular economy principles, particularly in urban contexts such as West Jakarta, remain limited. This gap highlights the need for an in-depth analysis of how financial literacy can encourage MSMEs to adapt to sustainable business models.

The connection between financial literacy and the circular economy has strategic implications for the sustainability of MSMEs. Entrepreneurs with sound financial literacy can manage investments in environmentally friendly practices, access financing for sustainable initiatives, identify market opportunities for green products, and mitigate financial risks associated with regulatory dynamics or raw material prices (OJK, 2021; LCDI Indonesia, 2024). This research is essential to provide empirical understanding of the role of financial literacy in supporting the implementation of the circular economy among MSMEs in West Jakarta. The primary objective of this study is to analyze the extent to which financial literacy influences MSMEs' ability to implement circular economy practices in order to enhance financial performance and business sustainability.

2. METHOD

The team proposes three main pillars to enhance the competitiveness of micro, small, and medium enterprises (MSMEs) in West Jakarta: (1) financial literacy encompassing record-keeping, cash flow management, and investment planning; (2) the implementation of a circular economy through the processing of waste into value-added products; and (3) the development of a standardised financial recording system complemented by template-based cash flow assistance tools. Knowledge transfer is conducted practically through interactive training, group discussions, and simulations using simple software (e.g., Excel) for financial management and organic waste shredders for waste processing (UKM Indonesia, 2023; Suara.com, 2022; West Jakarta Office of Industry, Trade, Cooperatives, and Small and Medium Enterprises, 2024). This method aligns with the national financial literacy strategy set forth by the Financial Services Authority (OJK) for the period 2021–2025 and the finding that human resource competencies and financial literacy significantly influence the quality of MSME financial reports (Saldikawati et al., 2023; OJK, 2024).

Stage 1 identifies the needs of MSMEs through social mapping, highlighting the requirements for simple financial record-keeping, strategies for managing production waste, and optimising cash flow. The programme's socialisation emphasises the benefits of a circular economy and efficient business management (Lindananty, 2022). In Stage 2, training is delivered in a structured manner: participants learn to operate organic waste shredders, utilise Excel for automated record-keeping, and process waste into new products (e.g., recycled packaging). Stage 3 involves field assistance to integrate these technologies into daily operations, ensuring consistency in financial record-keeping and the application of waste processing techniques learned (Oktasari, 2018; Oktasari, 2023).

Stage 4 focuses on advanced assistance and evaluation: the team monitors the use of shredders, the application of Excel, and the implementation of circular economy concepts, while assessing indicators of operational efficiency and waste reduction. The evaluation includes an analysis of the liquidity and financial stability of MSMEs (Ardila et al., 2021; Susan et al., 2023). Stage 5 ensures the sustainability of the programme through routine monitoring, the establishment of MSME networks for the exchange of best practices, and ongoing educational sessions. Product diversification based on the circular economy is promoted to add value and expand market reach (LCDI Indonesia, 2024; Siregar et al., 2024; Oktasari et al., 2024).

The implementation of these solutions begins with discussions with MSME partners in the North Meruya sub-district, followed by detailed planning, execution, and continuous evaluation. An integrated approach combining financial literacy and the circular economy is expected to enhance performance, crisis resilience, and the contribution of MSMEs to the national circular economy agenda (OJK, 2024; LCDI Indonesia, 2024). With the support of a collaborative network and ongoing monitoring, the programme can strengthen the position of MSMEs as a driving force for inclusive economic growth.

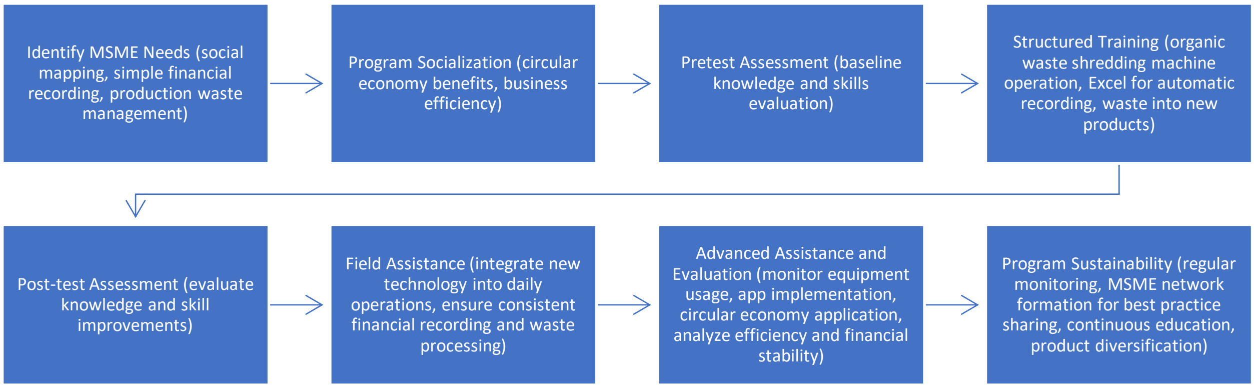

Figure 1. The flowchart steps for the UMKM Competitiveness Improvement

3. RESULTS AND DISCUSSION

The implementation of the community service program by Team 11, centered around the theme "Building Sustainable MSMEs: Integration of Financial Management, Marketing, and Human Resources with Circular Economy Principles," proceeded with an active learning approach based on participant experiences and feedback. The outreach event held on February 17, 2025, in Meruya Utara Village, West Jakarta, aimed to deliver content in a classical format while simultaneously strengthening communication among MSME practitioners.

Evaluation of the program's outcomes indicated a primary focus on enhancing understanding of business sustainability and environmental preservation. The training commenced with an introduction to green financial literacy, digital marketing strategies, and green marketing management, accompanied by a pre-test to assess participants' initial knowledge. Pre-test data revealed that the majority had not yet adopted green business principles, thereby motivating full participation in the training. Interactive discussions and question-and-answer sessions demonstrated participant enthusiasm and a significant increase in understanding, corroborated by post-test results indicating mastery of green business concepts, digital marketing, and enhanced human resource competencies.

Support for the program's success stemmed from the participants' adequate educational backgrounds and strong motivation to acquire new knowledge. Comprehensive documentation processes were undertaken, encompassing meeting data, photographs, videos, and complete reports. A critical evaluation of the program assessed its impact, challenges, and provided recommendations for improvement. It was evident that the program succeeded in enhancing participants' and organizers' insights, skills, and understanding of sustainability issues.

Based on a community satisfaction questionnaire completed by 25 respondents, all of whom were female, with a majority being housewives (40%) and entrepreneurs (24%), the program received highly positive feedback. More than 80% of respondents expressed being "Very Satisfied" with various aspects of the implementation, including the content delivered, training methods, timing, and opportunities for discussion. Respondents appreciated the effective role of the facilitators and the transparent evaluation mechanisms.

This high level of satisfaction is reflected in the assessment that the program provided new understanding and knowledge regarding business sustainability and environmental issues, as well as practical applications in MSME development. The communication established among participants also strengthened social networking and collaboration for the sustainable development of MSMEs. Several suggestions emerged for the program to continue evolving with innovative ideas and to expand the training scope, including the addition of hands-on practice sessions to optimize the application of the material.

Overall, this community service program successfully fulfilled its primary objectives and recorded significant social impact, reinforcing the development of sustainable MSMEs through financial management, marketing, and human resource management grounded in circular economy principles.

4. CONCLUSION

The Community Service Team has successfully implemented its community service program, achieving its main goal of improving the understanding and skills of small and medium-sized enterprises (SMEs) in sustainable business practices. Focus areas included green financial management, digital marketing, and enhancing human resources. The contributions of Team 11, acting as organizers, facilitators, and documenters, were essential to the smooth execution of activities. Their effective communication and relevant resources encouraged active participation throughout the process (pre-test → training → post-test) and led to measurable improvements in competencies. Participants' solid educational backgrounds and strong motivation facilitated the quick adoption of new ideas.

Moreover, comprehensive documentation and satisfaction survey results indicated that over 80% of respondents rated the program's materials, methods, and impact as highly satisfactory. However, there are operational challenges to address, such as the limited training session duration, the need for more hands-on practice opportunities, and variations in how SMEs apply circular economy principles, which require further support. Recommendations include extending training durations to incorporate practical modules, developing mentoring programs after activities to monitor implementation, and expanding target groups to enhance gender inclusion and diversify participants' professions. Implementing these suggestions is anticipated to strengthen the long-term impact on improving the competitiveness of SMEs within the circular economy framework.

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