

Increasing capital market literacy for MSMEs in business development in Palembang City

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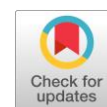
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ABSTRACT

This community service activity aims to improve financial literacy and increase capital market understanding in 33 Micro, Small and Medium Enterprises (MSMEs) in Ilir Barat II Palembang City. The initiative, which was carried out in collaboration with the local government and the Faculty of Economics, Sriwijaya University, focused on providing literacy and training in financial markets. The goal is to equip MSME entrepreneurs with important skills for business development. The initiative addresses challenges such as limited financial knowledge and reliance on bank loans. Utilizing a collaborative approach, the program includes lectures, discussions, and evaluations. The results showed a positive response from participants, with increased awareness and interest in participating in the capital market. The significance of the location as a Palembang Songket Handicraft center and liaison shows the relevance of the program. The success of this initiative has positive implications for MSMEs, encourages a better understanding of capital markets, and fosters potential participation in the Initial Public Offering (IPO) process. Overall, community service programs contribute to improving economic literacy and opening opportunities for MSMEs to find alternative sources of funding for business development.



KEYWORDS

Financial literacy
Capital market
Initial public offering (IPO)



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1. Introduction

Capital markets as centers of complex financial activity, play a key role in supporting global economic stability and an effective means of accelerating a country's development [1], [2]. MSMEs act as the main foundation of the Asian economy. It accounts for more than 96% of the region's total businesses, and provides two out of three private sector jobs on the continent [3]. As the main pillar of funding for companies and governments, the capital market provides a vital means for fund owners to carry out investment activities [4]. The global phenomenon that marks the economic shift towards the capital market model has created new infrastructure and facilities, facilitating the execution of buying and selling transactions and other related activities [5], [6] mentioned that the development of the capital market segment can encourage investment in MSMEs. The active involvement of companies, investors, and regulators in capital markets creates complex dynamics, driving the need for collaborative efforts to maintain the sustainability and competitiveness of capital markets [7].

The condition of financial literacy in the capital market sector, as revealed by the Financial Services Authority (OJK), illustrates significant challenges. Only 5 percent of people in this sector have financial literacy, a figure well below the national average of 38 percent according to the report Financial Services Authority (2020) [8]. In general, Indonesia's financial literacy index only reached 32 percent, lower than several countries in Southeast Asia such as Malaysia (36 percent), Myanmar (52 percent), and Singapore (59 percent) [9]. The ability of the public to understand and apply financial concepts is a critical aspect in the process of selecting investment products that suit their needs and capabilities, by carefully considering risk factors, product legality, and fairness of offerings [10]. Therefore, improving financial literacy, especially in the capital market environment, becomes a must to ensure informative and knowledge-based participation, which can ultimately provide support for sustainable economic growth [11].

The service program has a purpose that is very relevant to the needs of the community in Ilir Barat II Makrayu, Palembang City. Through the provision of training on Capital Market Literacy for MSMEs in Business Development, it is expected to provide the skills needed by micro, small and medium enterprises in the region. In business development, there are various obstacles, and one that is often faced by MSMEs is the need for funding. The tradition of bank lending as an additional source of funds may not always be the optimal solution [12]. Therefore, introducing the concept of capital market as an alternative that can be utilized by MSMEs is a strategic step in overcoming these obstacles. The capital market, as a place to buy and sell long-term financial instruments, provides opportunities for MSMEs to obtain funding through the offering of debt securities (bonds) or shares [13].

The development of regulations related to banking and capital provides a positive impetus to capital market growth, enabling not only large companies but also MSMEs to seek funding in the capital market [14]. In fact, the increasingly easy conditions for MSMEs to engage in capital markets show that this initiative is increasingly relevant and can provide substantial benefits [15]. The Ilir Barat II District area, as the center of Palembang Songket Handicraft and with the existence of the Crossing Port which is the center of inter-sub-district liaison, makes it a very appropriate location to provide education and training related to capital market literacy. By providing understanding and skills to the surrounding community, especially MSME actors, it is hoped that this service can make a positive contribution to business development and economic growth in Palembang City. Many financial literacy programs for MSMEs still focus on basic aspects such as financial management and access to banking. However, this program specifically targets the understanding of the capital market, which is still rarely the main concern for MSMEs in Indonesia.

2. Literature Review

Financial literacy is a fundamental aspect of personal and business life, encompassing a collection of skills and knowledge that enable individuals to make informed decisions and effectively manage their financial resources [16]. It is defined as the ability to use knowledge and skills to manage financial resources in order to achieve prosperity. The capital market, on the other hand, is an organized financial system that serves as a meeting place between supply and demand for securities, where market players invest in securities offered by issuers [17].

Capital market literacy plays a crucial role in economic development and business growth, especially for Micro, Small, and Medium Enterprises (MSMEs). A good understanding of the capital market allows MSMEs to explore alternative funding sources other than banking, such as through the issuance of shares or bonds [18]. This can increase their access to larger capital, which ultimately encourages business expansion and increases competitiveness. In addition, adequate capital market literacy also contributes to financial stability, as business actors can make more rational and informed investment decisions [19]. Countries with high levels of capital market literacy tend to have more dynamic and resilient business ecosystems, thus accelerating overall economic growth. Therefore, it is important to emphasize that increasing capital market literacy is not only an individual need, but also a strategic factor in strengthening a country's economic structure.

In general, the functions of the capital market, as described in research by Vismara (2016) [20] include facilitating the increase of capital for businesses through the sale of shares, which are then purchased by the general public, other companies, institutions, or the government. Additionally, it serves as a means of equalizing income by providing dividends to the shareholders, thereby contributing to the equalization of income. Furthermore, the capital market plays a role in increasing production capacity and creating employment by encouraging the emergence and development of other industries, which in turn leads to the creation of new jobs [20]. Finally, the capital market contributes to increasing state income through the taxation of dividends, thereby bolstering the overall state income [21].

Several previous studies have shed light on the role of capital markets in providing access to finance for Micro, Small, and Medium Enterprises (MSMEs). A study by Hamid (2017) [22] emphasized the strategic and important role of MSMEs in various sectors of the economy, highlighting the challenges faced by MSMEs in accessing capital. The research pointed out that MSMEs often rely on personal or joint capital for their business, and external sources of financing for MSMEs are limited compared to large companies. This underscores the significance of alternative sources of finance, such as the capital market, in supporting the growth and development of MSMEs. Furthermore, a World Bank report by Carvajal et al., (2020) [23] discussed the active debate about the role that capital markets can play in SME financing.

The report highlighted the potential of capital markets in providing financing for SMEs, including MSMEs, in emerging markets and developing economies.

3. Method

This study uses primary data, namely data obtained directly from the participation of 33 MSMEs in Ilir Barat II District, Palembang City. Primary data is data collected directly from the first source through certain methods to answer research questions or test the proposed hypothesis [24], [25]. In this study, primary data was obtained through survey methods, observations, and pre-tests and post-tests to measure the effectiveness of the capital market literacy program provided to participants. The target audience that will be participants in this study is 33 MSMEs in Ilir Barat II District, Palembang city. The method used in the implementation of this service is the provision of literacy and training, especially the Capital Market. The implementation of this service involves collaboration between the Capital Market and Commodity Futures Laboratory, Faculty of Economics, Sriwijaya University and Ilir Barat II District, Palembang City. The conceptual framework show in Fig. 1.

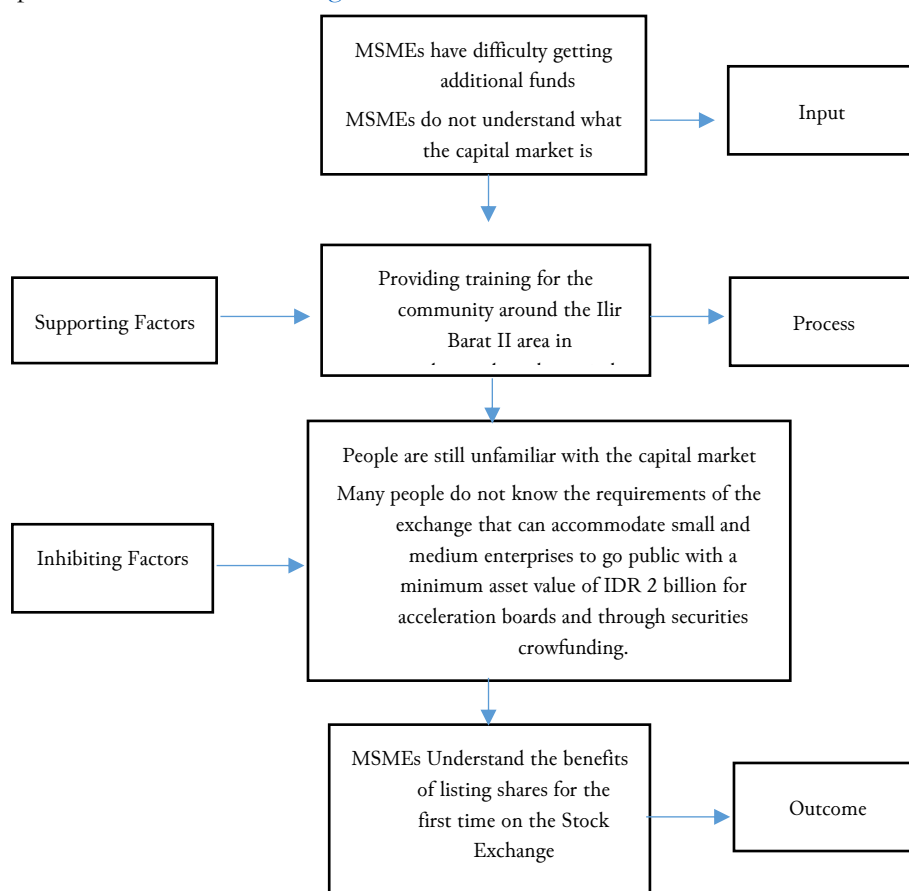


Fig. 1. The Conceptual Framework

This research method uses a quantitative approach with a descriptive design to analyze the level of capital market literacy among MSME actors in Palembang City. This study began with the provision of education on capital market understanding to MSME participants. Furthermore, a discussion was conducted in the form of a Forum Group Discussion (FGD) and a question and answer session to explore the understanding and obstacles faced by participants regarding investment in the capital market. After the discussion session, participants were asked to fill out a questionnaire designed to measure their level of understanding before and after the education was provided. The data obtained from the questionnaire were then analyzed using descriptive statistical methods to see changes in the level of literacy and understanding of participants. With this method, the study aims to identify the effectiveness of capital market education and provide insight into steps that can be taken to increase MSME participation in the capital market sector. Steps of Community Service activities show in Fig. 2.

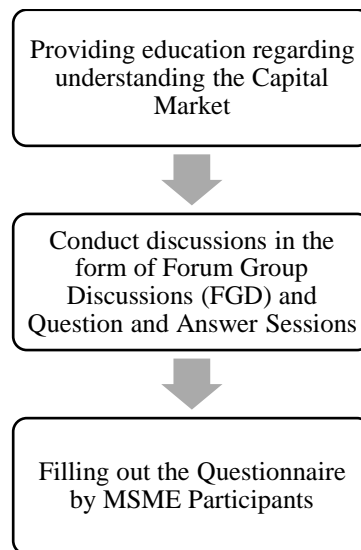


Fig. 2. Scheme of steps of Community Service activities

4. Results and Discussion

The capital market has significant potential as a channel or access for Micro, Small and Medium Enterprises (MSMEs) in seeking financing to support their business development [26], [27]. In this case, there are three classes of companies that can enter the capital market. First, the group of companies with funds above Rp 250 billion, second, companies on the development board with funds below Rp 250 billion, and third, companies on the acceleration board with funds below Rp 50 billion. In the same context, a financial institution in Indonesia shows commitment through a loan portfolio of Rp 160 trillion specifically allocated to MSMEs.

This fact reflects the tendency of MSMEs that still depend on banks as the main source of financing, even though the capital market provides attractive opportunities for their development [28]. By getting involved in the capital market, MSMEs can offer their share ownership publicly through a public offering (go public), opening up opportunities to get funding without having to rely on loans from banking institutions for their business expansion [6]. The process of engaging in the capital market requires careful preparation, including the preparation of a comprehensive business plan and compliance with applicable regulations. Documents that are crucial to being involved in the capital market include general company information, financial data, legality information, and details about the Initial Public Offering (IPO) [29], [30].

Initial Public Offerings (IPOs) can be classified into two categories: Securities Crowdfunding (SCF) and Acceleration Boards [31]. As a relevant funding scheme for small businesses (MSMEs) and start-up companies, SCF basically adopts the concept of raising funds from the community through an 'online joint venture' mechanism. Within the framework of SCF, the financial instruments that can be offered are not only limited to shares (as equity instruments), but can also be debt securities or sukuk [32].

For MSMEs and start-ups, the funding process through SCF is similar to larger companies conducting an Initial Public Offering (IPO) through the capital market [33]. However, it should be noted that SCF has certain limitations, such as a maximum share offering limit of IDR 10 billion in a 12-month period, as well as other restrictions that will be discussed further. Due to nominal restrictions and frequency of securities offerings through SCF, this platform may not be the only funding method used by an MSME or start-up company.

Meanwhile, the Acceleration Board serves as a listing place for companies with small and medium-scale assets (SMEs) [34]. The board is designed to encourage more SMEs to conduct Initial Public Offerings as a fundraising strategy to support expansion. The Acceleration Board is for companies that have been operating for at least 1 year, with the requirement that companies listed on this board must offer a minimum of 20% of their total shares to the public, and have more than 300 shareholders. Delivery of activities show in Fig. 3.



Fig. 3. Delivery of Activity Materials

In facing the uncertainty of the future of MSME businesses, it is recommended to implement a number of strategic suggestions as follows: (1) Capital determination should be adjusted to the needs of business funds, taking into account the existing time period and financial capabilities. It is important to choose a rational loan and carefully take into account the monthly rate of gain. (2) Instilling an attitude of optimism and confidence in the achievement of the monthly profit level, so that MSMEs can anticipate the ability to pay obligation installments appropriately. (3) Although economic risks are always present, careful analysis can help avoid potential negative impacts. In the case of non-performing loans, the possibility of credit restructuring can be explored, with banks as partners constantly looking for solutions to facilitate installment payments. (4) The existence of various government programs that support MSMEs, especially in terms of capital, is an opportunity that can be utilized properly to improve sustainability and business development. FGD session and Q&A of participants show in Fig. 4.



Fig. 4. FGD Session and Q&A of Participants

By detailing the results of questions and answers and interactions in community service activities, it can be concluded that Micro, Small and Medium Enterprises (MSMEs) in Ilir Barat II District, Palembang City, show a limited level of understanding of the concept of financing through the capital market, especially related to the initial public listing process. The capital market has a number of requirements that need to be met by prospective MSMEs who want to offer shares in general or through an Initial Public Offering (IPO) scheme. Therefore, it is recommended that MSMEs that have not reached this stage can more intensively involve other parties in business development, by submitting share offerings to the general public, so that share ownership can reach a minimum of 100 people, in accordance with the prerequisites needed in the context of the capital market. Photo with team and service participants show in Fig. 5.



Fig. 5. Photo with Team and Service Participants

4.1. Evaluation Results

As a step to evaluate and improve the implementation of community service activities that will be held in the future, an evaluation questionnaire was distributed to participants at the end of the activity. The data obtained through such questionnaires are presented as follows.

Fig. 6 shows the analysis data from the first question in the evaluation questionnaire. From these results, it can be concluded that the majority of respondents, as many as 87%, gave an "affirmative" answer. This reflects that respondents' level of understanding of the general concept of capital markets can be considered high. The answer "affirmative" indicates that the respondent has a fairly good or very good understanding of the capital market.

Factors that can influence this result include the effectiveness of delivering information in community service activities, the level of financial literacy of respondents before the activity, and the clarity of the material presented. Success in achieving this high level of understanding can be used as a positive indication of the success of community service activities in providing knowledge about the capital market to participants. Furthermore, these results can be the basis for identifying areas that require focus or improvement in an effort to improve understanding of capital market concepts among activity participants

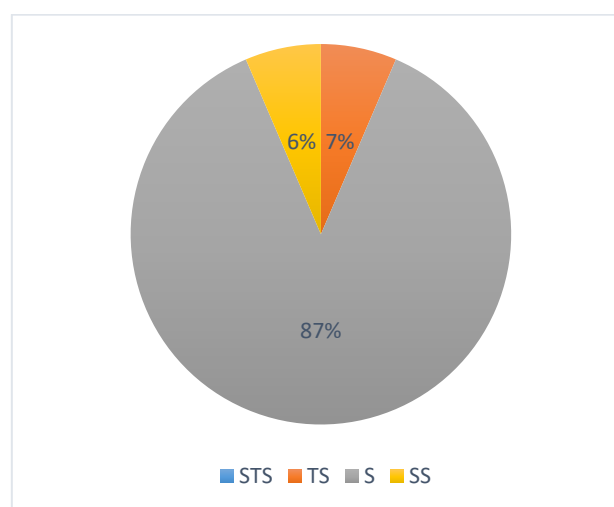


Fig. 6. Participants Understand the Capital Market in General (Source: Data processed, 2021)

^a. Notes: STS= Strongly Disagree; TS= Disagree; S= Agree; SS= Totally Agree

Fig. 7, it can be observed that the answer "affirmative" dominates the response to the first question with a percentage of 68%. This shows that the majority of respondents have a positive view regarding understanding the benefits of the capital market for Micro, Small and Medium Enterprises (MSMEs) in business development. This positive answer can be interpreted that respondents understand substantially the positive contribution that can be made by the capital market to the development of MSMEs. Analysis of these findings may indicate that there is awareness among respondents of the importance of utilizing the capital market as an alternative financing channel to support the growth and development of MSME businesses.

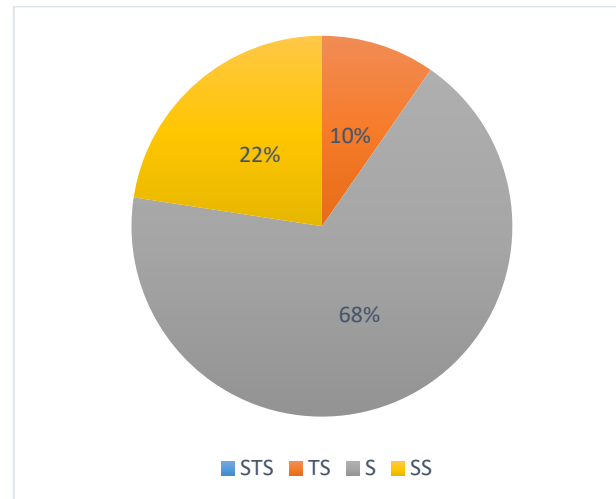


Fig. 7. Participants Understand the Benefits of Capital Markets for MSMEs in Business Development Source: Data processed, 2021

^b. Notes: STS= Strongly Disagree; TS= Disagree; S= Agree; SS= Totally Agree

Fig. 8, there is a dominance of "affirmative" answers on the first question with a percentage of 87%. This high percentage indicates that the majority of respondents understand the stages of Initial Public Offering (IPO) or the listing of shares of Micro, Small and Medium Enterprises (MSMEs) companies in the Capital Market, as explained by the resource persons during the service activities. The analysis of these findings reflects the successful delivery of information about the IPO stages to activity participants. A high percentage indicates that the material presented by the resource person is considered clear and understandable by respondents. Thus, it can be interpreted that community service activities have succeeded in providing adequate knowledge related to the process of listing shares of MSME companies in the Capital Market

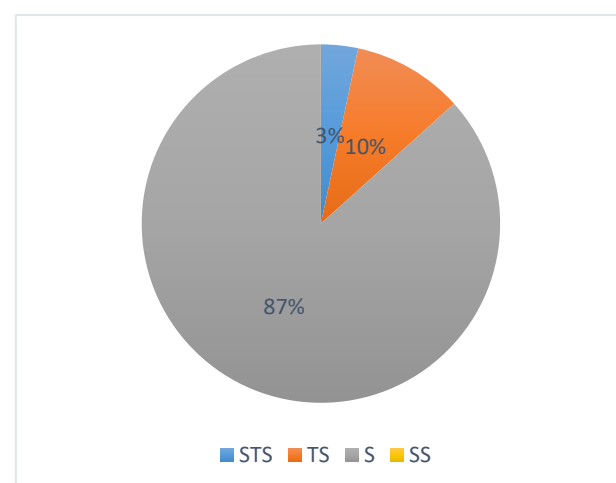


Fig. 8. Participants Understand the stages of IPO/listing of MSME Company Shares in the Capital Market Source: Data processed, 2021

^c. Notes: STS= Strongly Disagree; TS= Disagree; S= Agree; SS= Totally Agree

Fig. 9, it can be seen that the answer "Agree" dominates in the first question with a percentage of 79%. This percentage indicates that the majority of respondents showed interest in submitting their business for an Initial Public Offering (IPO) in the Capital Market. Thus, this finding reflects a strong interest from MSMEs to be involved in the IPO process and list their company shares on the Capital Market. This analysis provides a positive picture regarding respondents' enthusiasm in exploring financing opportunities through the Capital Market, and can be used as a basis for designing further development programs that support MSME participation in IPOs in the Capital Market.

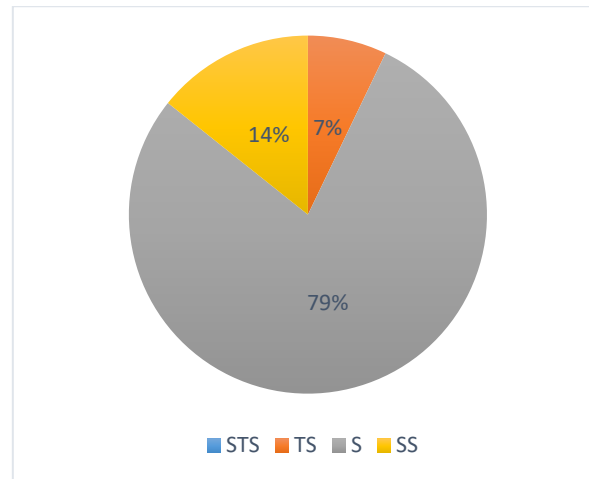


Fig. 9. Participants interested in submitting my business for IPO in Capital Market Source: Data processed, 2021

^d. Notes: STS= Strongly Disagree; TS= Disagree; S= Agree; SS= Totally Agree

Fig. 10, it can be observed that as many as 77% of respondents expressed agreement, and as many as 23% expressed strong agreement regarding the material presented. The combination of percentages reaches 100%, indicating that all respondents have a good understanding of the material presented. These results reflect the level of success in delivering information or material during community service activities. The high percentage of agree and strongly agree shows that the material presented is considered good and relevant by respondents, and this can be used as a positive indicator of the success of service activities and the effectiveness of delivering material to participants.

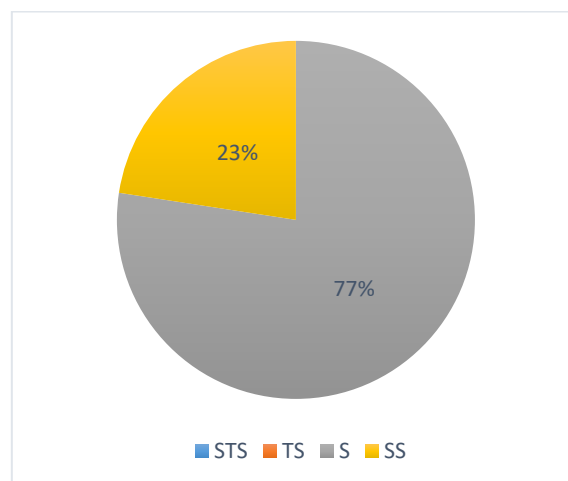


Fig. 10. Participants Understand the Activity Material delivered by the Resource Source: Data processed, 2021

^e. Notes: STS= Strongly Disagree; TS= Disagree; S= Agree; SS= Totally Agree

4.2. Discussion

The results of the questionnaire show that this community service activity has a significant positive impact on the understanding and interest of MSMEs in utilizing the capital market as an alternative to financing. Most of the participants showed an increased understanding of the basic concepts of the capital

market, its benefits for MSMEs, and the stages of the Initial Public Offering (IPO) process. This reflects the success of the program in increasing capital market literacy for small and medium business actors.

One of the main factors that drives this success is the effectiveness of the delivery of material by the presenter accompanied by interactive educational methods. As many as 77% of participants stated that they understood the material presented, and even 23% stated a very good understanding. Thus, it can be concluded that the communication strategy used in this activity has succeeded in reaching the audience effectively.

In addition to increasing literacy, this activity has also succeeded in fostering interest in MSMEs to be more active in the capital market. As many as 79% of participants showed interest in applying for their business for IPO in the capital market. This is an indication that more and more MSMEs are starting to realize the great potential offered by the capital market as an alternative source of funding outside of bank loans. With wider involvement in the capital market, MSMEs can access larger amounts of capital, increase the scale of their businesses, and strengthen their competitiveness in the wider market.

Another positive impact of this activity is the increasing awareness of MSME actors on the importance of transparency and good corporate governance. The IPO process requires companies to have clear financial statements, a good management structure, and regulatory compliance. By understanding this process, MSMEs participating in this program are expected to start implementing more professional business practices, which will ultimately contribute to the sustainable growth of the regional economy.

Based on the research results, these results are consistent with the efficient market hypothesis (EMH) theory proposed by [35] which states that access to adequate information allows market players, including small and medium enterprises (SMEs), to make more rational investment decisions. A good understanding of the capital market helps small and medium enterprises understand the mechanisms, risks, and opportunities of investment, so that they can use the capital market as an alternative source of financing for business development. This study also supports the findings of [36] which show that higher levels of financial literacy contribute to better investment decisions, as well as research by [37] which reveals that access to broader financial markets, including capital markets, can accelerate the growth of SMEs. In addition, [38] emphasized that low financial literacy can hinder SMEs in accessing formal finance, therefore increasing understanding of the capital market is a key factor in the sustainability of their business.

4. Conclusion

The results of community service activities have a significant positive impact on Micro, Small, and Medium Enterprises (MSMEs) in Ilir Barat II, Palembang City. Increasing financial literacy, especially related to the capital market, has enabled MSMEs to better understand the mechanism of listing shares through an Initial Public Offering (IPO). This better understanding not only expands their funding options but also empowers MSMEs to make wiser financial decisions, thereby reducing dependence on bank loans and increasing access to alternative funding sources. In addition, increasing MSME awareness of opportunities in the capital market has also encouraged the creation of a more competitive and competitive business environment. By being involved in the capital market, MSMEs can strengthen their financial sustainability, which ultimately contributes to long-term business growth and expansion. Furthermore, increasing MSME participation in the capital market also provides broader economic benefits, such as increased investment flows, job creation, and better local economic stability. These findings emphasize the importance of financial education in bridging the gap between MSMEs and the capital market. As financial literacy and confidence of MSMEs increase in utilizing capital market instruments, they gain strategic advantages in developing their businesses, driving innovation, and improving overall competitiveness. Therefore, this initiative becomes a catalyst in driving financial inclusion and economic growth, both at the local and regional levels. This research contributes to financial literacy literature by highlighting the importance of understanding the capital market for MSMEs, which is still rarely the focus of financial literacy programs in Indonesia. A collaborative approach between academics and local governments provides new insights into the effectiveness of partnerships in improving the financial understanding of small business actors. In addition, this article links capital market literacy with the culture-based creative economy sector, especially songket craft MSMEs in Palembang, thus showing how access to the capital market can support the growth of this sector. The implication is that, theoretically, this study enriches the discussion on financial literacy strategies for MSMEs, while

practically, this program can be replicated in other regions to increase MSMEs' access to non-bank funding.

Declarations

Author contribution. All authors contributed equally to the main contributor to this paper. All authors read and approved the final paper.

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