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The Impact Of Financial Literacy On Financial Well-Being Of Coffee Farmers In Central Java Indonesia

Intan Shaferi*[1] , Alisa Tri Nawarini[2] , Rio Dhani Laksana[3]

[1]Faculty of Economics and Business, Jenderal Soedirman University, Indonesia.

[2]Faculty of Economics and Business, Jenderal Soedirman University, Indonesia.

[3]Faculty of Economics and Business, Jenderal Soedirman University, Indonesia.

Abstract

Indonesia has a majority of the population working in the informal sector, one of them is a farmers. This study aims to analyze the knowledge of farmers about finance or financial literacy that allows individuals to make effective decisions in finance. The variables used are financial literacy, income, financial behavior and financial well-being. The respondents are coffee farmers in Central Java area.

The theory of planned behavior and the theory of life-span development are related to financial well-being, which is relatively rarely studied due to the use of individual coffee farmers. This literacy research can also be used as a benchmark in considering financial behavior, income, financial literacy, and financial attitudes to achieve family financial well-being in Indonesia, especially for coffee farmers. The research was conducted using Structural Equation Modeling (SEM).

The results showed that financial literacy and income has positive effect on the well-being of coffee farmers in Central Java and financial behavior has negative effect on the well-being of coffee farmers in Central Java. In managing finances, only a small number of Central Java coffee farmers use financial institutions for both savings and loans. For loan funds in a certain and convincing amount, coffee farmers rely more on credit from friends or family. No more than 10% of farmers plan household expenditures and implement them consistently. This study also found a significant positive relationship between coffee farmers' knowledge of financial institutions and the level of use of financial institution products.

Keywords: financial literacy, financial capital, financial behavior, well-being, coffee farmers.

I. Introduction

Well-being is closely related to the fulfillment of needs in daily life. Humans have various needs in life. When the necessities of life can be met without exception, well-being can be achieved. Likewise, when one of the necessities of life cannot be fulfilled, it cannot be said to be in a prosperous condition. Well-being has not been fully felt by all families in Indonesia. Based on data from Central Statistics Agency , it can be seen in 2019 the number of pre-prosperous families in the district. Central Java is classified as high as 7,467 families out of a total of 22,173 families. Based on BPS in 2018 with a percentage of 34%. Pre-prosperous families are families who have not been able to meet the minimum needs of their lives. This shows that well-being has not been fully felt by the citizens of Central Java.

This condition is possible due to the low financial well-being of the family. Economic literacy is a very important issue for individuals [5]. Good financial management must be supported by good financial literacy. Financial literacy is also related with good financial behavior. Attitudes towards finances is also very much needed so that a person can improve his standard of living. A person must also have an intention in manage his finances in order to have positive finances. Actions must be accompanied by positive intentions in advance so that there are no errors in financial management. For farmers who are able to use mobile and technology will be better in their educational condition [7].

The financial aspect is one of the most important things in family life to maintain and develop daily life to achieve prosperity. Currently the well-being of coffee farmers in Central Java has not been fully felt by the family. This condition is possible due to the low financial well-being of the family. The financial aspect is one of the most important things in family life to maintain and develop daily life to achieve prosperity. Based on the description above, this research becomes rational to be investigated based on the phenomenon of gap, research gap, and theoretical support as stated above as the background for this research. This study will examine the effect of income, financial literacy, and financial attitudes on family financial well- being.

The important of the effect of financial literacy to be examined to the well-being. And our sample using the part of life work as coffee farmer in the Central Java area. So that, our research question is how financial literacy has impact into coffee farmer well-being?

In research [8] said that the level of financial literacy on individual investment decisions has a positive effect, while on individual investment decisions, income has a negative effect. In contrast in [10] with the statement that the illusion of control and perceived risk of financial literacy do not affect investment decisions, while risk tolerance affects investment decisions. Research conducted [2] states that there is a positive influence of financial literacy and income on investment decisions, but does not have a positive effect on investment decision behavior. Furthermore, research [3] says that the relationship between financial literacy and investment decisions does not influence each other, but does affect the relationship between financial behavior and income on investment decisions.

This research was conducted to determine the effect of financial literacy,

financial behavior and income on investment decisions. So, the formulation of the problem in this study is whether financial literacy and financial behavior affect investment decisions. Based on that, then the hypothesis are:
H1: Financial literacy has a positive influence on financial well-being
H2: Financial capital has a positive influence on financial wee-being
H3: Financial behavior has a positive influence on financial well-being

II. Methodology

A. Population and Sample

The population of this research is coffee farmers in Central Java. This study uses a non-probability sampling technique with a purposive sampling model. Non-Probability Sampling technique is a method related to sampling in a population by providing different opportunities or opportunities for each population element which will then be used.

Purposive sampling was chosen as the sampling method, where this method is based on certain considerations. The data obtained from the research results will be processed using data analysis techniques, namely Partial Least Square (PLS). Partial Least Square (PLS) is a fairly strong analytical method because it is based on many assumptions, the data used does not have to have a multivariate normal distribution (indicators covered by categorical, ordinal to ratio scales, all can be used with the same model), the sample does not have to be large, can contain 30 to 100 samples that can be used to explain whether or not there is a relationship between latent variables (measured indirectly). Research used 115 data of coffee farmers in the Central Java area. The selection of samples taken and used in this study was carried out with a certain effort. By using the Slovin formula the sample used is 115 respondents within research period during April-August 2021.

B. Research Variable Indicator

The following will describe the variables and research indicators used in this study.

Table 1. Research Variables and Indicators

Variable	Symbol	Indicator
financial literacy	X1	Able to write a budget plan
	X2	Have savings
	X3	Understand about investment
financial capital	X4	Amount of capital
financial behavior	X5	Record the expenses
	X6	Have financial records
	X7	Be careful in managing money
	X8	Understanding debt
	X9	Have reserve fund

well-being	X10	Understand financial condition
	X11	Able to control buying behavior
	X12	Have future financial perception

III. Results and Discussion

A. Description of Respondent Data

Characteristics of the first Respondents Based on Gender, 26 respondents were male (32.5%), and 54 female respondents (67.5%). Characteristics of the second respondent based on age, obtained a total of 10 respondents for the age of 25-30 years (12.5%), for the age of 31-40 years as many as 16 respondents (20%), for the age of 41-50 years as many as 11 respondents (13.75%) and age > 50 years as many as 43 respondents (53.75%). Characteristics of the third respondent based on education level, there were 12 respondents in elementary school (10%), and 70 respondents in junior high school (70%) and 23 respondents in high school (20%).

Characteristics of the fourth Respondent Based on Length of Work, obtained a total of 9 respondents with a length of work 1-3 years (11.25%), 4 respondents with a length of work 3-5 (5%), and 67 respondents with a length of work >5 years (83.75%. Characteristics of Respondents Based on Monthly Income, there is a fifth respondent based on monthly income, obtained a total of 69 respondents with a monthly income of 500 thousand – 1 million (60%), 7 respondents with a monthly income of 1-2 million (30%), and 4 respondents with monthly income above 2 million (5%).

B. Data Analysis and Hypothesis Testing Measurement Model (Outer Model)

For the validity of the investment decision variables, financial literacy, financial capital, financial behavior and indicators, there are no obstacles, so the results show greater than 0.5. So, it can be stated that all instruments for each of these indicators are valid and fulfill all the requirements, because all correlation values, namely the factor loading value, are more than 0.50.

Table 2. Composite Reliability and AVE Output Results

	Composite Reliability	**Cronbachs Alpha**	**AVE**
Financial literacy	0.8504	0.7455	0.6576
Financial Capital	0.8437	0.7501	0.6274
Financial behavior	0.8564	0.8130	0.5278
Well-being	0.7502	0.4798	0.5017

Source: Processed Primary Data

A construct was said to be reliable if it meets the value > 0.70, on the output results above all constructs meet the criteria for the composite reliability value. Furthermore, for the AVE value, the AVE value is said to be good if it meets the value of 0.50. The higher the AVE

value, the lower the error rate in a construct.

C. Inner Model Test

In the inner model test, we can see two types of the values, namely as the significance of the relationship path between the constructs and the R^2 value.

Table 3. Path coefficient results

	Original Sample	Sample Mean	Standard Deviation	Standard Error	T Statistics
financial literacy >> well-being	0.7197	0.8369	0.0927	0.0532	15.4133
financial capital>> well-being	0.5617	0.6011	0.0902	0.0913	7.2634
financial behavior>> well-being	0.5808	0.6025	0.0915	0.0927	8.1527

The relationship in the coefficient of the research path must be in accordance with the formulated hypothesis. As explained in section 2 of the hypothesis, in this study the researcher formulated 3 hypotheses, namely the existence of a significant positive influence of financial literacy, financial capital and financial behavior on financial literacy and financial well-being. The results of the output path coefficients have shown numbers that can explain the path relationship and the level of significance between one construct and another. All constructs between the independent and dependent variables have a significant path relationship. Financial capital on farmers' well-being has a significance of 7.2634 > 1.96. Financial behavior on farmers' well-being has a significance of 8.1527 > 1.96. Then, the relationship between literacy and financial well-being are also significant at 15,4133 > 1.96.

Results of the R^2 value output is 0.7620. This means that financial literacy, financial capital and financial behavior are simultaneously able to explain the variability of financial well-being by 76.20%. The R^2 value of 76.20% is included in the category of criteria for the limitation of the substantial R^2value or it is included in the category of high R^2 value.

IV. Discussion

A. The Influence of Literacy on Financial Well-Being

The first hypothesis, the construct was said to be reliable if it meets the value > 0.70, on the output results above all the constructs meet the criteria for the composite reliability value. Furthermore, for the AVE value is good if it meets the value of 0.50. The higher AVE value same as the lower level of error in a construct. In this study, financial literacy is a variable indicated by 3 indicators, namely being able to prepare a budget, being careful in managing finances and understanding investments, while financial

welfare has 3 indicators, namely having savings has a reserve fund and has a perception of future finances. Simultaneously, the relationship between financial literacy and farmers well-being can be explained by testing the inner model or structural model.

Table 4. Inner Model Value Summary

	Original Sample	R-Square	T Statistics	Explanation
Financial literacy>> Well-being	0.7197	0.7164	15.4133	Significant

The effect of financial literacy on financial well-being shown in table 5, it can be seen that the relationship between financial literacy and financial well-being is significant positive.

This evidenced by the positive inner model value, which is 0.7197. Then the value of R2 was included in the middle category for the model. For the significance test, it can be seen that the value of t-statistic > t-table (15.4133> 1.96). The positive relationship between financial literacy and financial well-being means that the higher level of financial literacy owned by farmers in Central Java, it will tend to affect financial well-being. In other words, understanding the farmers in their knowledge of the ability to manage the funds they have is better for their financial well-being. Financial well-being is a state of being financially healthy, happy, and free from worries, which is based on subjective research of one's financial situation [4].

B. The Influence of Financial Capital on Financial Well-Being

In the second hypothesis, the influence of financial capital has a significant positive effect on financial well-being. There is one indicator that significant, it is amount of capital. To see whether the results of this study are in accordance with the hypothesis that has been explained by the inner model or structural model test.

Table 5. Inner Model Value Summary

	Original Sample	R-Square	T Statistics	Explanation
Financial Capital>> Well-being	0.5617	0.6787	7.2634	Significant

The effect of financial literacy on financial well-being shown in table 6 in, it can be seen that the relationship between financial capital and financial well-being is significant positive.

This evidenced by the positive inner model value is 0.5617. Then, the value of R2 is included in the middle category for the model. For the significance test, it can be

seen that the value of t-statistic > t-table (7.2634 > 1.96). The positive relationship between financial capital and financial well-being means that the higher level of financial capital owned by farmers in Central Java, it will tend to affect financial well-being. The more capital will help farmers to get chance for better economic condition.

C. The Influence of Financial Literacy on Financial Well-Being

In the third hypothesis, the influence of financial literacy has a significant positive effect on financial well-being. There are 4 indicators in the latent variable of financial behavior, there are have reserve fund, understand financial condition, able to control buying and have future financial perception. To see whether the results of this study are in accordance with the hypothesis that has been determined by looking at the simultaneous relationship between financial literacy and financial well-being which can be explained by the inner model or structural model test.

Table 6. Inner Model Value Summary

	Original Sample	R-Square	T Statistics	Explanation
Financial Behavior >> Well-being	0.5808	0.7145	8.1527	Significant

Financial well-being realized when a person can meet all their needs and have money left over, they can control their finances and feel financially secure for now and in the future [1]. In line with this, the Financial Services Authority in 2017 states that financial well-being can be realized when people are able to manage their finances well, they could invest and have financial resilience. Other results from research, the behavioral side of finance show that managing finances only a small number of Central Java coffee farmers, they use financial institutions for save and borrow. For borrowing funds in certain and sudden amounts, coffee farmers rely more on loans from friends or family. No more than 10% of farmers planned household expenses and implied them consistently. In this study, it was also found that there was a significant positive relationship between coffee farmers' knowledge on financial institutions and the level of using financial institution products.

V. Conclusion

This study aims to examine the effect of financial literacy and financial behavior on the financial well-being of coffee farmers in Central Java. The test results showed: (1) Financial literacy has a significant positive effect on the well-being of coffee farmers in Central Java. (2) Financial capital has a significant positive effect on the well-being of coffee farmers in Central Java. (3) Financial behavior has a significant positive effect on the well-being of coffee farmers in Central Java.

In this research using coffee farmers in Central Java and three variables. Next agenda of research is can be enlarging the sample and also carried out in the wider area.

Moreover can be classified for specific farmers. So that can contribute more.

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