

Indonesia's Financial Inclusion is High, but Financial Literacy is Low: How Does the Government Address It?

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The Importance of Financial Access and Literacy

Access to formal financial institutions that provide financial services and products; such as credit, loans, insurance, investment, and other formal alternative funding schemes; can contribute positively to community welfare. Formal financial institutions, through their services and products, can act as a channel for capital from those who want to provide loans or investments to those in need so that a country's economy can run optimally. In some cases in developing countries, formal financial institutions can even stimulate entrepreneurial spirit, encourage economic development, and expand the scale of production of small and medium enterprises. Therefore, expanding community access to formal financial institutions is an effort that needs to be encouraged to realize community welfare.

In addition to access to formal financial institutions, financial literacy is also an important element that allows people to maximize access to formal financial institutions. The Organization for Economic Co-operation and Development (OECD) defines financial literacy as "a combination of knowledge, skills, and confidence that influences a person's financial habits so that their financial decision-making and planning abilities increase". David L. Remund emphasizes financial literacy indicators into five things: (1) knowledge of basic financial service concepts, (2) the ability to communicate basic financial service

¹ Bhegawati, D., Utama, M. (2020). "The Role of Banking in Indonesia in Increasing Economic Growth and Community Welfare". South East Asia Journal of Contemporary Business, Economics and Law 22(1), pp. 83—91.

² Toni, M. (2023). "The Role Of Financial Institutions In Promoting Entrepreneurship And Economic Growth". International Journal of Business Leadership and Management 1(1), pp. 17—25.

³ OECD. (2009). "Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy". OECD.Guy Standing, The Precariat: The New Dangerous Class (London: Bloomsbury Academic, 2011).

concepts, (3) awareness and intuition in managing personal finances, (4) knowledge and skills to make the right financial decisions, and (5) confidence to make effective financial plans for the future. Without being accompanied by adequate financial literacy, access to formal financial institutions can lead people to financial decisions that are detrimental to themselves and worsen the economy in the long term.⁴

Indonesian Government Efforts in SNLKI 2021—2025

The Indonesian government, as one of the countries with the largest economies in the world, is aware of the importance of financial access and literacy. In OJK Regulation Number 76/POJK.07/2016 of 2016, the Indonesian government grouped and defined both of these into financial inclusion, namely a set of people's abilities to access financial services and products accompanied by a good understanding of them. Through OJK and other state financial ministries/institutions, the Indonesian government continues to strive to encourage the level of financial inclusion in Indonesia. However, the results of these efforts still show that the Indonesian government needs to work harder. The 2016 National Survey of Financial Literacy and Inclusion (SNLIK) showed an imbalance between the level of access and financial literacy of the community. The survey found that 67.8% of Indonesians were able to access formal financial institutions, but only 29.7% of the community had good financial literacy.⁵ SNLIK 2019 showed an increase. As many as 76.19% of Indonesians had access to formal financial institutions and 38.03% of them had good financial literacy.⁶ Despite improvements, large disparities in financial access and literacy remain.

To improve financial inclusion, the Indonesian Government launched the Indonesian National Financial Literacy Strategy (SNLKI) 2021-2025. This strategy has a vision of "Realizing an Indonesian Society with a High Financial Literacy Index (Well Literate) so that it can Utilize Appropriate Financial Products and Services to Achieve Sustainable Financial Welfare". This vision is then broken down into more detailed strategic missions and programs and supported by various enablers that make it possible to be realized.

Vision	Realizing an Indonesian Society with a High Financial Literacy Index (Well Literate) so that it can Utilize Appropriate Financial Products and Services to Achieve Sustainable Financial Welfare
Mision	● Utilizing digital technology to improve the financial literacy index; ● Building and enhancing strategic alliances in the implementation of financial literacy and education programs; and ● Expanding access to and availability of inclusive financial products and services.

⁴ Remund, D. (2010). "Financial Literacy Explicated: The Case for a Clearer Definition in an Increasingly Complex Economy". The Journal of Consumer Affairs 44(2), pp. 276—295.

⁵OJK. (2016). Survei Nasional Literasi dan Inklusi Keuangan 2019. OJK.

⁶OJK. (2019). Survei Nasional Literasi dan Inklusi Keuangan 2019. OJK.

Strategic Programs	Financial Competence 1. Develop a strategy for implementing age-appropriate financial literacy and education activities 2. Develop a digital financial literacy and education infrastructure (Massive Open Online Courses) 3. Strengthen Islamic financial literacy 4. Strengthen education strategies through religious leaders 5. Intensify affirmative action Wise Financial Attitude and Behaviors 1. Encourage risk-based consumer protection literacy and education 2. Develop tools to strengthen wise financial attitudes and behaviors 3. Reinforce wise financial behaviors through outreach activities and the development of financial literacy ambassadors Financial Access 1. Promote financial inclusion of generic products 2. Strengthen the alignment of inter-institutional financial literacy and inclusion strategic programs 3. Encourage the acceleration of Islamic financial inclusion products
Enabler	● Strengthen the strategic planning and monitoring of business processes for financial literacy and education ● Strengthen Institutional Relations ● Intensify campaigns and reinforce the financial literacy education Infrastructure

The strategic programs and enablers that enable them to be realized are run with different schemes. The implementation of strategic programs is carried out in stages each year from 2021 to 2025 with a program plan that has been prepared per year. In 2021, for example, the government will focus on forming a Learning Management System (LMS) to improve public financial literacy. In the years after that until 2025, the programs that will be implemented will be different but remain interconnected. Meanwhile, the implementation of programs that form an enabling situation for strategic programs is carried out throughout the year from 2021 to 2025. During this period, the Indonesian Government through the OJK and financial ministries/institutions will continue to: (1) coordinate with government and non-government actors who are committed to improving public financial literacy, (2) carry out regular monitoring and maintenance of the curriculum and applications that support public financial literacy education, and (3) evaluate and strengthen the implementation of strategic programs to improve public financial literacy.

Strategic Programs Every Year				
2021	2022	2023	2024	2025
▪ Development of a Learning Management System (LMS) ▪ Curriculum Development ▪ Improving Islamic Financial Literacy ▪ Improving Capital Market Financial Literacy	▪ Implementing the National Survey on Indonesian Financial Literacy and Inclusion (SNLIK) ▪ Curriculum Intensification ▪ Implementation of Financial Literacy and Education Affirmative Action for 3T Communities and Persons with Disabilities	▪ Intensifying the Use of LMS through Inter-Agency Strategic Alliances	▪ Expanding the Scope of Financial Literacy and Education Activities as well as Public Access to Finance, Especially Generic Financial Inclusion Products	▪ Enhancing Digital Financial Literacy and Education Activities (Applications, Dashboards, and SmartphoneBased Tools) and Evaluating the Effectiveness of the 2021 SNLKI's Implementation
Multi-years Program (Enabler)				
▪ Coordination with related Institutions and Ministries in order to improve financial literacy ▪ Maintenance of applications in order to improve financial literacy ▪ Preparation and updating of heatmaps in order to determine priority areas and targets ▪ Planning, implementing, and monitoring financial literacy and education activities ▪ Holding SiPEDULI workshops in order to increase the participation of FSPs in carrying out financial literacy activities ▪ Implementation of the cycle approach to strengthening financial education and literacy infrastructure				

All visions, missions, and strategic programs contained in the 2021-2025 SNLKI have strengths and weaknesses, both in the internal and external context, which will influence them in achieving their targets, namely increasing Indonesia's financial literacy. The strength of SNLKI can be seen from the government's commitment and support to increase Indonesia's financial literacy. One of these strengths can be seen in the strong collaboration between policymakers, implementing institutions, educational institutions and financial institutions. One of these collaborations can be integrating the financial literacy curriculum into the education curriculum. This is also supported by the use of digital technology to facilitate the transmission of financial education material to a wider population. Various internal forces are supported by several external conditions. The digital economic ecosystem that continues to grow encourages public financial literacy to continue to be improved. Fintech companies growing in Indonesia are also increasingly open to collaborating with the government because they also need it. The growing pop culture on the internet also increasingly requires netizens to be financially literate.

SWOT analysis of SNLKI 2021-2025

Strength	Weakness
Internal Factors - Government commitment and support for financial literacy initiatives - Strong collaboration between financial regulators, institutions, and educational bodies - Integration of financial education into school curricula - Use of digital platforms to reach wider audiences	- Large and diverse population making uniform implementation challenging - Limited resources for comprehensive nationwide programs - Varying levels of internet access across different regions - Potential language barriers in a multi-lingual country
Opportunities	Threats
External Factors - Growing digital economy and increasing smartphone penetration - Leveraging social media and popular culture for financial awareness campaigns - Tailoring programs for specific demographics (youth, rural communities, etc.) - Partnerships with fintech companies for innovative education methods	- Rapid technological changes outpacing financial literacy efforts - Potential economic instability affecting implementation - Misinformation and scams targeting financially vulnerable populations - Cultural barriers to discussing money and finances openly
Positive	Negative

● The Future of Indonesian Financial Literacy

of the total population of Indonesia. With a large number of loan recipients, as well as the many incidents of people making the wrong financial decisions when using it, *pinjol* should receive more attention in the Indonesian Government's financial literacy program.

Apart from the increasingly rampant *pinjol*, another challenge of the program to increase financial literacy in SNLKI 2021-2025 is the high digital divide in Indonesia. Information and communication technology infrastructure capable of supporting population access and use of the internet only reaches less than 21% of the total of Indonesian provinces.⁸ Meanwhile, in SNLKI 2021-2025, the internet and digital technology have an important role to play in expanding educational programs to increase the financial literacy of Indonesian citizens. Without equal distribution of digital infrastructure, the 2021-2025 SNLKI program will certainly be difficult to realize.

Regarding digital infrastructure inequality, unfortunately it is not yet included in the 2021-2025 SNLKI. Annual strategic programs and multi-year programs planned to run from 2021 to 2025 are still too focused on increasing financial literacy per se. The 2025 strategic program, for example, tries to expand the scope of financial education programs by creating a smartphone-based dashboard application. Without overhauling Indonesia's digital infrastructure, this application will only touch less than 21% of the total population in all Indonesian provinces. In fact, with the low financial literacy rate throughout Indonesia, the improvement program should try to cover all regions of Indonesia without exception.

⁸Ratnawati, D., Čaplánová, A., Darmon, L. (2024). "Identification of Digital Divide across Indonesian Provinces: the Analysis of Key Factors". *Statistika* 104(2), pp. 185—202.

