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Improving Financial Literacy For Low-Income Communities Through Financial Coaching

Widya Rahayu
Universitas Deztron Indonesia

Perintis Kemerdekaan No.9, Perintis, Kec. Medan Tim., Kota Medan
Korespondensi penulis: widyarahayu@udi.ac.id

Abstract*. Low-income communities are often trapped in unstable financial conditions, so effective financial management is key to improving their well-being. Financial training can provide an understanding of these risks and teach how to avoid them, as well as recognise legitimate and profitable financial products and how to budget, manage debt or utilise financial products wisely. The theoretical study of financial coaching can be built upon several key theories covering aspects of education, economics and behavioural psychology. This article combines participatory action (PAR) and community-based research approaches to improve public financial capability through financial training programmes. The results of this service show that financial training has a positive and sustainable impact on improving public financial capacity. However, it should be noted that the performance of this outcome is also the result of co-operation between researchers, stakeholders, and affected communities. Through improved understanding, skills, and access to appropriate financial products, communities can achieve a more prosperous and financially independent life. In addition, a change in attitude towards being smarter when managing finances is a major consequence of this service. Given the increased wise attitude towards understanding, skills and fundraising, we expect that the community will better manage their finances, reduce the risk of financial difficulties, and increase participation in formal financial services.*

Keywords*: Literacy, Training, Finance*

Abstrak. Masyarakat berpenghasilan rendah seringkali terjebak dalam kondisi keuangan yang kurang stabil, sehingga pengelolaan keuangan yang efektif menjadi kunci untuk meningkatkan kesejahteraan mereka. Pelatihan keuangan dapat memberikan pemahaman tentang risiko-risiko ini dan mengajarkan cara menghindarinya, serta mengenali produk keuangan yang sah dan menguntungkan serta cara mengatur anggaran, mengelola utang, atau memanfaatkan produk keuangan dengan bijak. Kajian teoritis terhadap pelatihan keuangan ini dapat dibangun melalui beberapa teori utama yang mencakup aspek-aspek pendidikan, ekonomi, dan psikologi perilaku. Artikel ini menggabungkan pendekatan untuk tindakan partisipatif (PAR) dan penelitian berbasis masyarakat untuk meningkatkan kemampuan keuangan publik melalui program pelatihan keuangan. Hasil pengabdian ini menunjukkan bahwa pelatihan keuangan memiliki dampak positif dan berkelanjutan pada peningkatan kapasitas keuangan publik. Namun, perlu dicatat bahwa kinerja hasil ini juga merupakan hasil dari kerja sama antara peneliti, pemangku kepentingan, dan masyarakat yang terkena dampak. Melalui peningkatan pemahaman, keterampilan, dan akses ke produk keuangan yang tepat, masyarakat dapat mencapai kehidupan yang lebih sejahtera dan mandiri secara finansial. Selain itu, perubahan sikap yang menjadi lebih pintar ketika mengelola keuangan adalah konsekuensi utama dari pengabdian ini. Mengingat meningkatnya sikap bijak terhadap pemahaman, keterampilan dan penggalangan dana, kami berharap bahwa masyarakat akan lebih baik mengelola keuangan mereka, mengurangi risiko kesulitan keuangan, dan meningkatkan partisipasi dalam layanan keuangan formal

Kata kunci: Literasi, Pelatihan, Keuangan

1. INTRODUCTION

Low-income communities still face difficulties in managing their finances. The lack of knowledge and skills in managing finances makes it difficult for them to achieve economic prosperity. The development of financial training programmes for low-income communities is essential to improve their understanding and skills in managing finances. The objective of this programme is to empower the community to manage their income and expenditure wisely,

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reduce dependency on high-risk loans, and improve their quality of life through better financial management.

The importance of financial training programmes for low-income communities can be seen from several key factors related to the economic challenges they face. Low-income communities are often trapped in unstable financial conditions, so effective financial management is key to improving their welfare. One of the main problems faced by low-income communities is dependence on loans from moneylenders or other informal lending institutions. Loans with high interest rates can trap them in a cycle of debt that is difficult to overcome. Financial training programmes can provide an understanding of good debt management and introduce them to safer formal financial institutions. One of the main barriers for low-income people in utilising financial services is their lack of understanding of financial products and how to access them. Financial coaching programmes play an important role in improving financial inclusion by introducing people to the formal financial system, such as opening a bank account, using microloans, or investing in products that are within their means.

Many low-income members of society do not have access to or are not adequately educated about financial management. Low-income communities are often targeted by financial scams, such as fraudulent investment schemes or debt scams. Financial training can provide an understanding of these risks and teach how to avoid them, as well as recognise legitimate and profitable financial products. They often do not know how to budget, manage debt or utilise financial products wisely. Without this knowledge, they can get trapped in long-term financial problems, such as mounting debt, which worsens their economic condition. Many individuals with low incomes struggle to manage their money efficiently. Spending more than income or unplanned spending habits can make it difficult for them to fulfil basic living needs. Financial coaching can help them better plan their budgets, understand their spending priorities and save for the future.

Improving financial literacy can have a significant impact on those with limited resources. Increased knowledge about managing finances can help avoid risky financial manoeuvres such as excessive debt and inappropriate investments. Enhanced financial capacity can also help plan for a better financial future. Planning for retirement savings or emergency plans. Thus, actions aimed at increasing financial resources can create barriers to overcoming financial constraints faced by poor individuals. A comprehensive strategy is needed. This includes approaches that focus on access to better financial education, improving understanding of financial concepts, and promoting wise financial behaviour. In addition, cooperation between the government, financial institutions, and non-benefit organisations can play an important role in the implementation of these strategies. Therefore, strategies to improve financial capability should be carefully developed to ensure that low-level people have access to the resources and information they need to better manage their finances.

2. THEORETICAL REVIEW

Financial training for low-income communities is an effort to improve financial literacy - the understanding, skills and knowledge needed to make sound financial decisions. The theoretical study of financial training can be built through several main theories that cover aspects of education, economics and behavioural psychology. The following are some relevant theories to explore the importance of financial training for low-income communities:

a. Financial Literacy Theory: Financial literacy refers to an individual's ability to understand and apply basic financial concepts, such as budget management, savings, debt, and investment. According to Lusardi & Mitchell (2014), low financial literacy can contribute to a person's inability to make smart financial decisions and lead to financially detrimental decisions, such as taking out high-interest loans or not saving for the future.
b. Economic Behavioural Theory: Economic behaviour theory reveals that financial decisions are not always based on rational calculations, but are also influenced by emotional and psychological factors. According to Kahneman & Tversky (1979) through the concept of prospect theory, individuals often make irrational decisions due to cognitive bias, fear of loss, or difficulty in long-term planning.
c. Social Justice Theory: Social justice theory argues that large economic disparities between groups in society can disadvantage disadvantaged groups. Financial coaching can be a tool to reduce these inequalities by empowering low-income people to manage their finances more effectively and achieve social mobility.
d. Decision Making Theory: Good financial decision-making involves the ability to make rational choices between different financial options. According to Shafir, Diamond, & Tversky (1997), decision-making is often influenced by external factors, including limited information or resources. In the context of low-income communities, they often have limited knowledge and access to accurate financial information.
e. Microeconomic Theory: Microeconomic theory focuses on the behaviour of individuals and households in terms of resource allocation. In the context of low-income communities, this theory shows the importance of managing budgets efficiently to achieve better welfare even with limited income.

3. RESEARCH METHODS

The community service method used in this article combines approaches to participatory action (PAR) and community-based research to improve public financial capability through financial training programmes (Muhtarom, 2019). In the initial stage, the Team will work with various interest groups, such as financial institutions, local government, and community organisations, to determine the key issues related to financial capability in Suka Maju Village. The researchers and the community then develop financial training together according to the needs and preferences of the community. Secondly, the service team's CBR approach directly engaged in the lives of the people involved in the study. This was done through focus group discussions and direct observation activities to understand the community's challenges related to financial competencies. In addition, the CBR approach will enable the service team to develop effective communication and marketing strategies to promote financial capacity programmes for the public. By combining the par- and CBR approaches, it is expected that the service will be able to create a programme for financial capacity based on community participation, relevance and positive effects.

4. RESULTS AND DISCUSSION

One of the most notable outcomes of the training was an improved general understanding of basic financial concepts such as financial planning, debt management, investment and insurance. Trainees reported that they are safe to make financial decisions and plan their economic future better. In addition, budget management, financial planning preparation, and selection of appropriate financial products improved from the programme to a positive outcome. Positive changes in public financial behaviour. There was better participation in improving savings habits, wise debt management, and protection of investments and assets. In addition, the results of this service noted an increase in public access and formal participation in financial services. Those who are not comfortable or familiar with banking, investment or insurance services find it safer and easier to access these services. This follows efforts to create broader financial integration into society. People's economic behaviour has been completely transformed through financial training and coaching programmes that focus on improving knowledge, skills and wise attitudes.

The results of this service show that financial training has a positive and sustainable impact on improving public finance capacity. However, it should be noted that the performance of this outcome is also the result of the collaboration between researchers, stakeholders, and affected communities. Therefore, in the future, it is necessary to evaluate the sustainability and effectiveness of financial training. This will have a great impact on public financial capacity. Improved understanding of financial concepts, smart changes in financial management, and increased participation in formal financial services have risen to become indicators of the success of this service. However, to ensure the sustainability of the results of this training, efforts and coordination of financial education and training programmes should be carried out regularly according to the development and needs of the community.

5. CONCLUSIONS AND SUGGESTIONS

From the discussion, we can conclude that the financial training had a positive effect on people's understanding, financial skills and behaviour. Through an integrated and participatory approach, the financial training was able to provide better knowledge on basic financial concepts such as planning, debt management, investment and property protection. Overall, financial coaching is a very effective tool to improve people's financial literacy. Through improved understanding, skills and access to the right financial products, people can achieve a more prosperous and financially independent life. In addition, a change in attitude to be smarter when managing finances is a major consequence of this service. Given the increased wise attitude towards understanding, skills and fundraising, we expect that the community will better manage their finances, reduce the risk of financial difficulties, and increase participation in formal financial services. However, it must be remembered that the success of this training is also determined by close cooperation between various stakeholders, including researchers, stakeholders, and communities. Therefore, regular evaluation and monitoring efforts should be conducted to ensure the sustainability and effectiveness of this training for financial capacity in the long run.

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