**Financial Literacy and SMEs in APEC**

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# **Introduction**

For decades, small and medium-sized enterprises (SMEs) have continuously grown and been recognized as an engine that encourages economic growth and employment creation for both developing and developed countries (Eniola & Ektebang, 2014). The success or failure of SMEs is contingent upon their financial viability. Many studies pointed out a significant obstacle to performance growth of sustainable SMEs throughout the developing world is a lack of knowledge, skills, attitude and awareness to cope and direct the finances of their organization in a robust, transparent, and professional way. Joo and Grable (2000) stated that the reasons why business people make inappropriate, inadequate and ineffective financial decisions are because of the lack of personal financial knowledge, lack of time to learn about personal financial management, complexities in financial transactions and the extensive variety of choices in financial products/services. Moreover, the lack of business management skills can magnify financial barriers for SMEs. Their low degree of financial literacy can prevent the performance level of SMEs, because they lack the knowhow to adequately assess and understand different financing provisions and navigate complex loan application procedures.

Financial literacy is a key component of the ultimate success of SMEs. When armed with sound financial literacy knowledge and skills, SME owners and managers are capable of adequately overseeing financial resources over their life cycle and connecting the business with financial products and services that can help their businesses grow without incurring excessive risk. Financial literacy is about discernment and making sound decisions about how to utilize of financial resources (Gavigan, 2010). This is an area that requires knowledge, skill, attitude and experience with goals to deal with the survival of the firm; profit maximization; sales maximization; capturing a particular market share; minimizing staff turnovers and internal conflicts; and maximizing wealth (Jacobs, 2001). It can be among the essential strategic tools to better organize allotments of financial resources and to buttress the financial strength of SMEs. Nowadays, financial literacy is a mandate and key strategy of many countries. For APEC economies (e.g. Malaysia, Hong Kong, Australia, and the U.S.), there is significant evidence showing that financial literacy promotion and the provision of financial literacy training programs have strengthened SMEs.

This paper titled “Financial Literacy and SMEs in APEC” aims to shed light on the current situation analyses of financial literacy initiatives among APEC economies. The study is based on a survey of 17 APEC economies. In the study, it is divided into four main sections, namely financial education policy, stakeholders, financial education program, and communication. The paper will conclude with policy recommendations that are applicable for all APEC economies.

# **The Importance of Financial Literacy**

Literacy is a permanently developed skill of individuals to use socially arranged systems of symbols for receiving, understanding, creating and using texts for life in the family, school, at work and in society. The bases of literacy are reading, writing and calculation; without these skills, it is extraordinarily difficult to function in modern developed societies. Literacy is considered a preliminary condition for successful and creative personal growth and responsible choices in professional and social life (National Strategy for the Development of Literacy, 2006). The Internet, modern technology and digitalization have changed the nature, frequency and meaning of literacy.

The term of “financial literacy” is referred to by many names: investor or investment education; economic education; financial education; savings education; pension education; personal finance employee education; workplace financial education; consumer education; consumer finance protection education; money management education; retirement savings education; and retirement education. Some financial literacy programs no longer describe themselves as addressing financial “literacy” and instead call themselves “financial empowerment” programs. This is because, as one program explained, “clients… felt that the term ‘financial literacy’ implied that they were lacking in some way, but that ‘financial empowerment’ implied the more positive image of taking charge of one’s life.” Still, these terms can be used interchangeably. Despite the various terms, the goal of “financial literacy” is to educate and inform consumers so that they can make appropriate decisions in managing their money, assets and liabilities – be that in a business or personal capacity.

The OECD defines financial literacy as:

*The process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.*

Financial literacy matters at many levels. For individuals and families, the benefits of financial literacy – which using shorthand we can describe as ‘being good with money’ – are well understood. The financially astute recognize the wisdom of sound financial planning from an early age and, by doing so, improve their chances of achieving their financial goals. These goals commonly include the purchase of a family home – usually by combining savings and a sensible amount of mortgage debt. For the financial system, it has much to do with the prudent management of risk by financial institutions, particularly credit risk – which is the risk of financial loss arising from the default of customers and counterparties. Of course, credit loss can never be eliminated completely, but good systems and controls can certainly help contain it. Nonetheless, history tells us that financial institutions are quite myopic in their lending behavior – they will tend to be quite liberal with credit when the economic times are good, only to repent of their generosity and tighten lending standards when times turn bad. This ‘procyclicality’ in lending behavior can spell danger for over-leveraged borrowers and, by extension, for the financial institutions themselves, especially if the economic downturn is sharp or prolonged. In a financially educated society, however, borrowers will be less likely to take on more debt just because credit is cheap and freely available. As a result, they will have a far better chance of riding out an economic downturn without defaulting on their debt repayments – which, in turn, will help minimize the bad debt experience of financial institutions and, by doing so, help bolster the stability of the financial system. In term of economy, that financial education can help safeguard against some of the risks that inevitably attach to financial innovation.

# **Financial Literacy and SMEs**

The United States Agency for International Development defines financial literacy for SMEs as:

*A financially literate SME owner/manager knows what are the most suitable financing and financial management options for hi/hers business at the various growth stages of the business; s/he knows where to obtain the most suitable products and services; and s/he interacts with confidence with the suppliers of these products and services. S/he is familiar with the legal and regulatory framework and hi/hers rights and recourse.*

Financial knowledge would affect in increase firm total sources of financing (Marcolin & Abraham, 2006). Moore (2003) elucidated that literacy or knowledge is gained via practical experience and active integration of knowledge. In other words, people will become more sophisticated in terms of finance when they are more literate. Likewise, another researcher, emphasized that an individual or organization who had financial literacy, knowledge and ability to put to use this knowledge, may not show the assume behavior or enhance his or her financial well-being as a result of other influences such as cognitive and behavior that is biased, self-control problems, family, peers, economic and institutional conditions that may affect the financial habits and financial well-being (Huston, 2010). However, there is no established instrument applied to measure financial literacy and that financial literacy cannot be measured directly.

Growth in financial knowledge increases the confidence of the economic agent. Parker, Yoong, Bruine de Bruin, and Willis (2008) found that confidence in knowledge predicts self-reported retirement planning and savings. On the third level we see that financial knowledge, skills and confidence culminate into financial behavior (e.g., operating saving account and utilizing microcredit facility). We also see that the experience gained through financial behavior feeds back to financial literacy through improvement in knowledge, skills and confidence. Downwards on the framework, we reason that as firms and individuals participate in the financial market and continue to utilize financial services, they create the opportunity for further business transaction with the financial institution which increases access to finance by SMEs. Moreover, SMEs can benefit from business advisory services once they operate savings account or utilizes loan facilities with financial institutions. This may include proper bookkeeping etc. Besides, as SMEs and financial institutions continue to relate, it provides an opportunity for both to know more about the operations of each partner. This knowledge will help SMEs to explore all the benefits from the financial institution which will consequently build up healthy SME.

In order to enhance financial literacy program among the SMEs, the OECD has identified the crucial information that the SMEs sector need to enhance for their financial literacy, the information are including (Financial Literacy and SMEs in APEC, 2014):

* Types of funding and credit products
* Sources of funding, and in particular sources of funding for start-up capital
* Requirements from financial institutions to access products and services
* Other types of financial products, such as savings options for businesses (e.g. money market for business), transactional products (e.g. business credit cards, CFC accounts for international trade); leasing; and commercial property
* Risk management, including insuring stock and business premises, and assuring the life of the SME owner/manager
* Formalizing a business (different legal structures, pros and cons, how to go about it), and the impact on financing options

# **Financial Literacy in APEC**

According to APEC, the SME sector accounts for over 97 per cent of all enterprises. It has absorbed over half of the workforce across APEC economies and is the main driver of economic growth -- the share of GDP from SMEs is ranged from 20 per cent to 50 per cent in the majority of APEC economies. This data is based on the financial literacy survey conducted in 17 economies. The survey was separated into four parts as mentioned above.

1. ***Financial Education Policy***

In this part, the survey focuses on acquiring an accurate picture of the current level of financial literacy, regular assessment, an existence of financial literacy strategy, and the gaps.

For the picture of the current level of financial literacy, the survey showed that 76% (13) of the APEC economies have an accurate financial education policy, while there four (24%) with an inaccurate financial education policy. The four economies in the latter category are Brunei, Japan, the Philippines, and Russia.

**Figure 1 Proportion of economies having accurate financial education policy**

Source: Financial Literacy Survey (2016)

The survey found that 65% of APEC economies carry out regular assessments of financial literacy, while about 35% rarely carry out the assessment—these economies include Brunei, Japan, Korea, the Philippines, Russia, and Singapore

**Figure 2 Proportion of economies having regular assessment**

Source: Financial Literacy Survey (2016)

Economies that carry out the assessments have agencies assigned to carry out the task. In the case of Malaysia, the assessment is the responsibility of the Bank Negara Malaysia (BNM). BNM conducts a nationwide survey periodically to obtain demand side data to support policy formulation to enhance the level of financial capability in Malaysia as well as to evaluate the effectiveness of modules, contents and delivery channels. Topical review is done to identify consumer vulnerabilities and risk areas, which then supports policy intervention or formulation.

In Australia, many organizations across various sectors (including the government, business, and community and education sectors) are involved in delivering financial literacy initiatives. Some of these initiatives assess general financial literacy levels; others evaluate the impact of the specific initiatives. For example, the ANZ Banking Group funds the Survey of Adult Financial Literacy in Australia, consistent with the objectives of its corporate social responsibility policies. The survey is developed in consultation with the Australian Securities and Investments Commission (ASIC) and select community representatives. ASIC also conducts evaluations of its financial literacy programs, moneysmart.gov.au and Money Smart Teaching. See www.moneysmart.gov.au/about-us/reports-and-surveys for reports about these programs. A number of industry organizations conduct research on specific areas that encompass financial literacy issues

For Canada, the Canadian Financial Capability Survey is conducted by Statistics Canada and the Financial Consumer Agency of Canada. The Survey was undertaken in 2009 and 2014; it will be refiled in 2019. It will be supplemented by other research such as the 2015 OECD/INFE Measurement of Financial Literacy and Financial Inclusion that surveyed adults 18 – 79 and the 2015 Programme for International Student Assessment (PISA) financial literacy assessment completed by 15 year-old students in schools in seven provinces in 2015.

In a case of Thailand, the Bank of Thailand and the National Statistical Office of Thailand (NSO) are two key agencies. During Q1/2013, they conducted the fourth national household’s survey with a sample size of 10,627 participants in order to observe Thai household status on various aspects such as debt level, financial access, and financial literacy. The OECD’s core questionnaire was used for the first time as part of the aforementioned survey in order to standardize the survey and make it comparable with those of other countries. The results will be used as a baseline data for monitoring future development.

The U.S. has participated in the OECD’s PISA Financial Literacy assessment in 2012 and 2015 to assess financial knowledge of youth. The FINRA Investor Education Foundation, a non-governmental organization, conducts the U.S. National Financial Capability Study every three years in consultation with U.S. government agencies.

Regarding the resources used for assessing financial literacy, the study found out that questionnaire is the most common resource, accounting for 45%. Other studies/indices and focus group account for 40% and 15%, respectively.

**Table 1 Proportion of resource used for assessing financial literacy**

|  |  |
| --- | --- |
| **Resources** | **Result** |
| **Total** | **% of response** | **% of case (N=17)** |
| Focus group | 3 | 15.00 | 17.65 |
| Questionnaire | 9 | 45.00 | 52.94 |
| Other studies/indices | 8 | 40.00 | 47.06 |
| **Total** | **20** | **100.00** | **117.65** |

Source: Financial Literacy Survey (2016)

In term of an existence of financial education strategies, 76% of APEC economies have financial strategies while 24% do not have financial education strategies. Brunei, Korea, Russia, and Thailand are among the economies without a financial education strategy.

**Figure 3 Proportion of economies having financial education strategies**

Source: Financial Literacy Survey (2016)

Sixty-five percent of APEC economies pointed out that they include financial literacy for SMEs in their strategies. However, there are six economies (about 35%) that have not yet included the issue in their strategies. These six economies are Brunei, Canada, Japan, Korea, Russia, and Thailand.

**Figure 4 Proportion of economies integrating financial literacy for SMEs in their strategies**

Source: Financial Literacy Survey (2016)

Most financial education policy has been developed by “National/Central Banks.” According to the survey, it accounts for 33.33%, followed by “Ministry of Finance and Ministry of Education,” which account for 24.24% and 18.18%, respectively.

**Table 2 Proportions of agencies involved in financial education strategies**

|  |  |
| --- | --- |
| **Agencies** | **Result** |
| **Total** | **% of response** | **% of case (N=17)** |
| Ministry of Finance | 8 | 24.24 | 47.06 |
| Ministry of Commerce | 2 | 6.06 | 11.76 |
| Ministry of Education | 6 | 18.18 | 35.29 |
| Ministry of Social Welfare | 2 | 6.06 | 11.76 |
| National/Central Bank | 11 | 33.33 | 64.71 |
| Other | 4 | 12.12 | 23.53 |
| **Total** | **33** | **100.00** | **194.12** |

Source: Financial Literacy Survey (2016)

In Australia, there is the National Financial Literacy Strategy 2014-17. The strategy aims to improve the financial well-being of all Australians, by advancing their financial literacy. The prime focus of the Strategy is building Australians’ personal financial literacy, rather than financial literacy for specific contexts such as small business. In that context, SMEs would benefit from a number of the key actions delivered by relevant organizations under the 2014-17 Strategy. For example, small business owners of the future will benefit from the Strategy’s focus on educating the next generation, particularly through the formal education system. Specific actions include increasing the number of vocational education and training (VET) students participating in financial education. For example, ASIC is working in partnership with relevant organizations in the vocational training area to develop resources to support VET competencies in certificate-level courses for apprentices: a Cert III: Be Money Smart competency and a Cert IV: Be Money Smart in Small Business competency. Be Money Smart is an apprentice certificate qualification module comprising a financial health check, money management, personal tax, insurance and superannuation topics; and Being Money Smart in Small Business is a licensing certificate qualification module covering establishing a small business, being a contractor, business planning, managing business finance and compliance. Current small business owners will continue to benefit from ASIC’s Money Smart website, which provides guidance on all aspects of personal finance for all ages and life stages, and includes dedicated content for self-employed people on issues such as managing cash flow, tax, and retirement savings.

For Hong Kong, there is the Hong Kong Strategy for Financial Literacy (HKSFL). It launched in November 2015. The strategy sets out a clear vision for building the financial literacy and well-being of Hong Kong residents. The vision is underpinned by a number of actions, desired outcomes and key success measures for the next three years. The vision of the HKSFL is to empower the people of Hong Kong to make informed and responsible financial decisions for themselves and their families. The goal is to instill the financial knowledge, skills, attitudes, motivations and behaviors as identified in the Financial Competency Framework. The three strategic focuses aim to help achieve the following:

* 1. Raise awareness of the benefits of financial education
	2. Create greater awareness of the importance of financial education in society
	3. Stimulate greater demand and use of financial education initiatives
	4. Extend opportunities to learn
	5. Encourage life-long learning on financial matters starting from an early life stage
	6. Make financial education initiatives available in diversified venues and settings
	7. Enhance coordination and collaboration among stakeholders
	8. Optimize resources and achieve synergy
	9. Extend the impact and reach of education initiatives
	10. Share experience and good practice

The Hong Kong Strategy for Financial Literacy (HKSFL) is the first initiative of its kind in Hong Kong which aims to harness the enthusiasm and efforts of various sectors by setting common goals and enabling cross-sectoral collaboration to address financial education needs in Hong Kong. A comprehensive process has been undertaken to develop the HKSFL. Efforts were made to review strategy documents related to financial education from other economies. An audit of the financial education initiatives currently offered in Hong Kong was also conducted to understand the market landscape and assess critical gaps. This was followed by a series of stakeholder workshops to discuss potential strategies and build consensus. Finally, as part of the inclusive process to develop the HKSFL, there was a public consultation to seek the views and support from the wider community.

1. ***Stakeholders***

The primary targets of financial educational programs are youth—it accounts for 16.13%. Young children accounts for 15.05%. Adult generally accounts for 13.98%. The SMEs accounts for 12.90%.

**Table 3 Proportions of primary targets of financial education**

| **Agencies** | **Result** |
| --- | --- |
| **Total** | **% of response** | **% of case (N=17)** |
| Young children | 14 | 15.05 | 82.35 |
| Youth | 15 | 16.13 | 88.24 |
| Adult generally | 13 | 13.98 | 76.47 |
| Low income population | 12 | 12.90 | 70.59 |
| Single parents | 3 | 3.23 | 17.65 |
| Women | 7 | 7.53 | 41.18 |
| Minorities | 6 | 6.45 | 35.29 |
| Senior citizens | 7 | 7.53 | 41.18 |
| Rural/urban  | 4 | 4.30 | 23.53 |
| SMEs | 12 | 12.90 | 70.59 |
| **Total** | **93** | **100.00** | **547.06** |

Source: Financial Literacy Survey (2016)

Although the government sector is the key agency in driving financial education, it is evidentthat there are other organizations providing financial literacy education. In Canada, there are many different partnerships between non-governmental organizations and financial institutions, as well as between governments and non-governmental organizations. In the case of Singapore, there is the Institute for Financial Literacy. The institute is a collaborative effort between MoneySENSE (a national financial education program started by the public-sector Financial Education Steering Committee) and Singapore Polytechnic. In this survey, it pointed out that corporations are also key agencies providing financial education among the APEC economies.

**Table 4 Proportion of Agencies Providing Financial Literacy Education**

| **Agencies** | **Result** |
| --- | --- |
| **Total** | **% of response** | **% of case (N=17)** |
| Corporations | 16 | 38.10 | 94.12 |
| NGOs | 12 | 28.57 | 70.59 |
| Chambers of Commerce | 8 | 19.05 | 47.06 |
| Education Institutes | 6 | 14.29 | 35.29 |
| **Total** | **42** | **100.00** | **247.06** |

Source: Financial Literacy Survey (2016)

1. ***Financial Education Program***

The financial literacy programs for SMEs are mostly related to business planning, which accounts for 17.46%. Access to finance and start-up capital accounts for 14.29%, while both accounting and finance and risk management account for 12.70%.

**Table 5 SMEs Financial Literacy**

| **Course** | **Result** |
| --- | --- |
| **Total** | **% of response** | **% of case (N=17)** |
| Accounting and finance | 8 | 12.70 | 47.06 |
| Business planning | 11 | 17.46 | 64.71 |
| Exporting | 5 | 7.94 | 29.41 |
| Credit products | 7 | 11.11 | 41.18 |
| Access to finance and start-up capital | 9 | 14.29 | 52.94 |
| Saving options for business  | 5 | 7.94 | 29.41 |
| Transactional products | 4 | 6.35 | 23.53 |
| Risk management, including insurance | 8 | 12.70 | 47.06 |
| Formalizing a business | 6 | 9.52 | 35.29 |
| **Total** | **63** | **100.00** | **370.59** |

Source: Financial Literacy Survey (2016)

1. ***Communication***

There are wide ranges of communication channels used to promote financial literacy, including traditional and new media methods (e.g. website, social media, and mobile application). However, the survey found that websites are the most common channel (23%), followed by traditional (17.39%) and social media (15.94%).

In Canada, there is a variety of public information campaigns undertaken by organizations in the public, private and non-profit sectors. In Canada, November is Financial Literacy month. During this month hundreds of organizations get involved, hosting events and producing resources to help Canadians improve their financial knowledge and habits.

In Hong Kong, the IEC has employed different channels and formats to conduct education work, including a website, publications, seminars and mass media, such as TV, radio, social and digital media, mobile application, as well as media interviews, with the objectives of helping the public better plan and manage their personal finances and remind the public of the special features and risks of different financial products. The IEC also promotes responsible attitudes towards money management, investment and borrowing.

In the Philippines, social media and internal advocacy programs on financial literacy have been used for promoting financial literacy program.

# **Summary and recommendations**

The survey pointed out that financial literacy is growing in importance and has a significant role among the APEC economies. Many economies have initiated policies and programs. Regarding the coverage, the study found out that the financial literacy policies and programs implemented in APEC economies have covered SMEs. There are many courses provided by government organizations, private organizations, and NGOs. In term of accessibility, we saw evidence of applying many channels, such as website, mobile application, and social media, to promote the financial literacy.

In order to develop the financial literacy program for SMEs, the study divided the period of development into two phases. The first phase called “establishment of certain body and strategic development”. Having certain body working on this issue is quite important. According, the survey found that most of the APEC economies lack of certain bodies working on this program. In addition, it also has overlapping in term of their authorities. After having a certain body working on this issue, the APEC should focus on developing and implementing an APEC strategy for financial education. If one already exists, developing a framework for providing financial education for SMEs within the strategy.

After having a strategy, all the APEC economies should conduct an assessment of the financial literacy of SMEs in their economy to gauge their needs. Then, it needs to develop their own national strategies and develop the curriculum for SMEs.

The second phase is expanding channels. Once we have the strategy and curriculum (or training program), we need to create platform to share these outputs including best practices on financial literacy programs for SMEs among member economies.

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