



TECHNIUM
SOCIAL SCIENCES JOURNAL

Vol. 26, 2021

**A new decade
for social changes**

www.techniumscience.com

ISSN 2668-7798



9 772668 779000

Perceptions of Micro Small and Medium Enterprise Managers in Financing Accessibility to the Formal Banking Institutions

Juardi

STIAMI- Institute of Social Sciences and Management, Jakarta-Indonesia

Juardi703@gmail.com

Abstract. Micro, Small and Medium Enterprises (MSMEs) play an important role in Indonesia's economic recovery. This potential requires MSME actors to prepare various important aspects so that their business will grow, one of which is developing their business through Bank financing. However, the majority of MSME actors still do not have access to loans from the formal banking institutions. This research is intended to answer the questions why there are many MSMEs are still having difficulties in applying for loans to Banking institutions and what solutions must be done so that MSMEs can also get facilities for loans in order to develop their business. This is a qualitative research using a case study approach. Data collection was obtained from the results of semi-structured interviews with 10 MSME managers who have run the business for over 10 years with the various types of business namely snack and fries, sewing business, baby food, chicken porridge, and moslem clothing. The results of this study indicate that MSME managers in the North Bogor area still have difficulty accessing loans to formal Banking institutions due to 2 things, namely the low socio-economic conditions of MSME managers, as evidenced by not having a Bank account, not having collateral, and not having a partnership. Another thing is the problem of the educational background of MSME managers which is considered very low so that in general, they are not able to make good proposals, make financial reports, do not understand marketing problems and business development concepts. Therefore, the Banking sector is expected to simplify the requirements for MSME managers and provide guidance related to the professional management and development of MSMEs.

Keywords. MSME, Financing Accessibility, Banking Institution

1. Introduction

Micro Small and Medium Enterprises (MSME) are one of the sectors that support the economy in Indonesia because MSMEs play an active role in filling production activities and related to human life such as the food and clothing sector. Currently, MSMEs are people's businesses whose number reaches more than 26 million businesses or 98.68% of the total non-agricultural businesses in Indonesia. According to BPS data (2018), MSMEs are able to absorb around 75.33% of workers. Meanwhile, CIDES (Center for Information and Development Studies) in the article "The Impact of Fuel Price Increases on the MSME sector in Indonesia" wrote about the importance of making efforts for the development of MSMEs because in general the management of MSME uses relatively low costs and uses local resources (Meryana, 2012). MSMEs are also generally established by people who are categorized as poor and do not

have the opportunity to work in the formal sector. Therefore, it can be said that the MSME is one way out to overcome poverty and unemployment (Tambunan, 2011).

Unfortunately, there are still many MSMEs who have difficulty in expanding their business. In general, this is caused by financial problems for capital and also the difficulty of access to Banking institutions. In fact, Indonesia is on par with Thailand in terms of accessibility to credit, which ranks 48.¹ Many Banking institutions use the financial literacy of prospective creditors as an excuse or also business bookkeeping that is not in order or even does not exist at all. In addition, the problem of procedures and requirements set by Banks is also quite complicated with a lengthy bureaucracy.

This research is intended to answer the question why many MSMEs in the North Bogor area are still having difficulties in applying for loans to Banking institutions and what solutions must be done so that MSMEs can also get convenience and facilities for credit in order to develop their business. This research will make a major contribution to MSMEs as well as Banking institutions as well as observers of MSME development issues in Indonesia.

2. Literature Review

Definition of MSME

The definition of MSME as stated in the Law of the Republic of Indonesia No. 20 of 2008, Article 1 is a productive business owned by individuals and/or individual business entities that have micro business criteria. This Law also emphasizes that small businesses are carried out by individuals or business entities that are not subsidiaries of medium or large businesses. The criteria for defining MSMEs listed in article 6 are based on net worth, as follows:

Table 1
Types of MSMEs according to Law No 20/2008
Republic of Indonesia

No	Types of Business	Asset Value
1.	Micro Enterprise	≤ 50,000,000 (IDR) Excluding land and buildings for business premises
2.	Small Enterprise	50,000,000 – 500,000,000 (IDR) Excluding land and buildings for business premises
3.	Medium Enterprise	≥ 500,000,000- 10,000,000,000 (IDR) Excluding land and buildings for business premises

Source: Law No 20/Year 2008 Republic of Indonesia

Meanwhile, when it comes to human resources, Central Bureau of Statistics (BPS) provides the following limitations:

Table 2
Types of MSMEs according to Central Bureau of Statistics

No	Types of Business	Quantity of Human Resources
1.	Micro Enterprise	1 – 4 people
2.	Small Enterprise	5 – 19 people
3.	Medium Enterprise	20 – 99 people

Source: Central Bureau of Statistics (2018)

¹ <https://ekonomi.bisnis.com/read/20210501/12/1388975/klasik-sulitnya-akses-permodalan-jadi-kendala-pengembangan-umkm>

There are several characteristics that indicate that a business is categorized as a small-medium business group, among others, seen from the formal educational background of the manager, which is relatively low, has small capital. Judging from their socio-economic status, they are categorized as poor, and their wages are quite low and their business activities are small (Martin, 2000).

Meanwhile, Pandji Anoraga (2010) explained that the small business sector has characteristics other than small capital, business margins also tend to be thin due to high competition. In addition, the problem of human resource capacity is also the main element that causes the bookkeeping to be disorganized and even does not follow standard bookkeeping administration rules. Another problem related to human resources is their ability to manage a business which is still very limited. This also affects their ability which is not good enough in negotiating and determining marketing strategies. With this limited capability, it will be difficult for small business actors to be able to develop their business, especially to apply for credit to Banking institutions.

Weaknesses that often become inhibiting factors and problems of Micro Enterprises consist of 2 factors namely internal factors and external factors. Internal factors, which are classic problems, include: (a). limited capacity of human resources. (b). marketing capabilities are still limited, which generally only thinks about production problems. (c). the wider community in general cannot trust the quality of small business products. d. In general, small businesses use their own capital which is also relatively small. In addition to internal factors, the obstacles faced by small businesses are factors that come from outside (external). This factor can come from MSME coaches, such as the absence of monitoring so that the solutions provided are often not on target. From these obstacles, a gap emerged, namely from the Banking side. In general, Banking institutions are ready to provide loans or additional capital, but the problem occurs again because many MSMEs are unable to meet the requirements set by the Bank. This has even been going on for more than 20 years.

Difficulties in accessing loans to Banks are still experienced by MSMEs in Indonesia. It is not possible for Banks and other financial institutions to conduct transactions with business parties who do not have official/formal letters or documents, such as ID cards, driving licenses, certificates, and others. Meanwhile, the poor generally do not have complete documents as required by Banks. In addition, in general, loans from Banks require collateral (Ledgerwood, 2013). This is what ultimately causes MSME managers to prefer non-Bank financial services, because the procedure is simpler even though the interest rate is quite high (Nugroho, 2017).

MSMEs in financing accessibility

The larger the size of the company, it tends to have greater access to debt in the long term (Burkart and Ellingsen (2004). However, this does not mean that MSMEs do not have problems with accounts payable. If the management of MSMEs is not carried out properly and professionally, then it is not maybe these MSMEs will go Bankrupt. The main problems that are often encountered by MSMEs as stated by Honhyan, Y. (2009) are:

- (a) Quality of Human Resources, most of which MSMEs are family businesses that have been passed down from generation to generation. Limitations in formal education as well as skills will affect the way they manage their business, so that based on experience, businesses in these conditions are difficult to develop.
- (b) Limited market access will cause the products produced cannot be marketed competitively in both national and international markets

- (c) Limited Access to Information. In addition to access to finance, MSMEs also encounter difficulties in terms of access to information. The lack of information known by MSMEs, makes it difficult for MSMEs to compete with similar products from different places.

The results of SE 2016, most MSME managers build their businesses by relying on their own capital or with loans from non-institutional loans. This is because it is easier to get loans from individual loan providers. MSME managers in Indonesia find it difficult to get access to capital, especially when applying for credit to Darwin Bank (2018). In general, Banks have very strict policies regarding lending, including to MSME managers, one of the considerations is also because the average formal education for MSME managers is only primary and secondary school graduates, so many do not understand the procedure for applying for credit. This can be seen from the time the proposal was submitted.

If you look at the development of the digital world today, non-Bank institutions have their own place for MSME managers because their procedures are simpler. It is not complicated, and the disbursement process is very fast, the most important thing is that the borrower does not need to have collateral. However, the main problem is that the interest rate is determined. Even this is considered unnatural because it can be 4 or 5 times greater than the interest set by the Bank. The current online loan financing system has even led to financial technology (fintech) which does not require an intermediary but will be sent directly to the creditor. BPS (2018) itself reveals that there is a low percentage (13%) of MSMEs access to new loans from formal financial institutions.

Diagne and Zeller (2001) reveal that access to Banking can actually be obtained not only for MSME managers but also for individuals or households. The factors that influence the approval or rejection of loan applications are also because MSME business actors are considered to have business places that always move and do not stay in certain locations. Thus it is difficult for Banks to provide loans. The type of business is not always fixed, it can change at any time (Bank Indonesia, 2014).

The International Finance Corporation (2016) based on the results of their research suggests that female entrepreneurs have a lower default rate than men. This is partly due to the opinion that women are more disciplined in repaying loans than men (Remenyi, 2000). This is also in line with what Panjaitan et al. (1999) who in his research found that the rate of return on microcredit for women in Indonesia was 91%, while for men it was only 80%. Therefore, one of the ways to distribute credit to women is to prevent bad loans. Meanwhile, research by Haryani and Mulyaqin (2013) shows that rice farmers in Banten Province use their own capital to build their businesses and tend not to apply for loans from informal financial institutions. The factors that cause farmers to have difficulty accessing capital from Banks include: farmers' education which is considered too low and difficult to understand procedures for guaranteeing and refunding and the existence of collateral. In addition, previous experience of lending to non-Bank formal institutions such as cooperatives is also a consideration for Banks.

Another study from Wedelia et al. (2017) confirms the findings in previous research that the level of education, asset ownership, and the position of entrepreneurs as managers have a real and positive influence on formal financing in Bogor Regency. Food industry entrepreneurs who have assets greater than 50 million will have greater accessibility opportunities to formal financing sources. In his research, Adinirekso (2011) states that the existence of a relationship or partner is also a consideration for Banks in determining whether or not loan is approved by the Bank. The longer MSMEs have business partners, they are still needed to bridge the Bank as credit providers and MSMEs as credit recipients (Badriyah, 2009).

The distance between customer's place and the Bank was also an aspect that was taken into account. The closer the Banking location to the place of business, the better qualitative information about the credit quality of the entrepreneurs. Even the capital structure will also be largely determined by the place where the customer runs his business Hutchinson and Michaelas (2000). Businesses in the form of commerce are considered to have a fairly high turnover of funds, even Banks can easily calculate the amount of credit realization according to the type of goods/services traded. Therefore, MSMEs of the trading business type are usually easier to get access to loans (Barbosa and Moraes, 2004).

In addition, Banks will also assess the performance of MSME managers from their management capabilities. This can be seen, for example, from the financial reports that he made (Kitindi, Magembe and Sethibe, 2007). With data in financial statements, Banks can assess whether entrepreneurs have the ability to repay their loans, while also predicting their ability to prospects in the future. Good companies are also judged from how they prepare the various documents required (Pretorius and Shaw (2004).

Regarding assurance, Bougheas et al. (2005) explained that this is a very important factor for MSMEs because if at any time the entrepreneur cannot repay the loan, the collateral provided to the Bank can replace the loan that has been given by the Bank (Bougheas, Mizen, and Yalcin (2005), the size or size of MSMEs is also important to consider. The bigger the business, the more likely it is to have a large network as well as Wincent (2005). Thus, it will provide an opportunity that access to loans can be supported by the network owned by the MSME (Harvie et al.,2010). Account ownership (account-holding) in Banking is the main indicator in measuring the success (outreach) of financial inclusion. Account ownership means that people have and are (assumed) able to use access to these financial services to fulfill financing needs (financing) and increase their economic activities (Cheston et al 2016 in Nugroho, 2017).

3. Research Method

This is a qualitative research with a case study approach. A case study is interpreted as (a). "instance or example of the occurrence of sth.", b). "actual state of affairs; situations", and c). "circumstances or special conditions relating to a person or thing", according to the Oxford Advanced Learner's Dictionary of Current English 3 (1989, 173). A Researcher of a case study must solve the puzzle in it since the objective of a case study is to dig deeper the information about the problems and the current event.

Case studies also study the environmental interactions of certain social units as they are. Research subjects can be individuals, groups, institutions or communities. In this study, the research subjects were MSMEs managers residing in the North Bogor are, West Java Province, Indonesia and have run the business or over 10 years but have never received the loans rom the formal Banking institutions. According to Sugiyono (2003) purposive sampling is a sampling technique of data sources with certain considerations. This particular consideration, for example, is the person who is considered to know best about what we expect or maybe he is the object or situation under study. Meanwhile, the characteristics of the case studies proposed by (Creswell, 2009) are: (1) Identifying "cases"; (2) It is a "system bound" by time and place; (3) Using various sources of information in data collection to provide a detailed and in-depth description of the response to an event, and (4) Using a case study approach, the researcher will "spend time" in describing the context or setting for a case. As stated by Stake (1995), that a case can be studied as an object of study or considered as a methodology (Merriam, 1988).

In this study, data collection was carried out by in-depth interviews. Semi-structured interviews lead to depth of information. According to Sugiyono (2010) semi-structured interviews are more flexible than structured interviews in terms of its implementation. That is why, the researcher then decided to employ semi structured interview in order to get deeper information For this research, the researcher Interviews 10 UKM managers who have run the business for over 10 years with the various types of business namely: 3 snack and fries, 2 sewing business, 2 baby food, 2 chicken porridge, and 1 moslem clothing.

Dealing with the ethical issues and objections from informants to mention their names, the researcher only write their initials and type of business they run. In this study, the analytical technique used is the analysis model of Miles and Huberman who say that there are 4 main aspects in the analysis, namely: Data Collection, Data Reduction, Data Presentation, and Conclusion and Verification.

4. Results and Discussion

From the interview with the MSME's managers, the following data were obtained:

No	Themes	Total of Informants	Locations	Informant's answers
1.	Credit Proposal to the formal Banks	5		3 times
		5		2 times
2.	Results of the proposal	10		Rejected
3.	Types of Business	3	Store parking areas	Snack & Fries
		2	At home	Tailors
		2	Store parking areas	Baby Food
		2	Store parking areas	Chicken Porridge
		1	At home	Moslem clothes
4.	Educational Background	6		Primary School
		4		Junior High School (2 nd Grade)
5.	Reasons for being rejected	10	Condition of the prospective creditors (a) The proposal does not meet the requirements (b) No collateral (c) Do not have a Bank account (d) Do not have financial statements (e) Do not have partnerships with suppliers (f) The type of business is considered less prospective	
			Educational Background and Skills Possessed (a) Primary/Secondary High School Drop Outs (b) Have no knowledge of marketing (c) Do not have knowledge of making financial reports	

			(d) Lack of knowledge in partnership (e) Do not understand the concept for business development (f) Do not understand marketing concept and problems
6.	MSME managers' expectations		(a) Banks can facilitate MSME managers in accessibility of loans (b) Banks are willing to provide guidance in the form of training related to the preparation of financial reports, marketing strategies, cooperation strategies, and business development concepts.

The results of the interview above show that the ten MSMEs had experience submitting proposals to Bank financial institutions, but all of them were rejected. The reasons for refusal vary. The first is the writing of a proposal that is considered not to meet the required criteria, as submitted by EM, the owner of the snack and fries business.

“I have submitted a proposal for credit to the Bank 3 times, I have been called for an interview by the Bank, but in the end it was rejected. The first reason is the problem of proposals that are not in accordance with those required by the Bank. Well, my name is also a person who doesn't go to school. I went to elementary school but only reached 3rd grade. Even then, I have asked my neighbour's children for help to make a proposal. The Bank should be able to understand better that those who will be assisted are the lower class people whose education level is also low. If you have to make a good proposal, it means that it's not people from the lower classes who will be helped, but people with higher education. Banks need to be more realistic.” (EM - Snack and Fries MSME)

“In addition, the financial statements are also considered as a problem by the Bank., even though we only have a small business. I also have no employees, only family members, so I never make financial reports. In addition, I do not have a Bank account. That is also the reason why they rejected my loan proposal. The Bank should be willing to provide socialization to MSME managers on how to write good proposals as well as financial reports.” (RE - Chicken Porridge MSME)

Professional businessmen must have good financial reports because this will show how we run our business (Kitindi, Magembe and Sethibe, 2007). However, if Banks are to help provide loans to the middle class, this must be assisted by training from the Bank itself. Without intensive guidance from Banks, it will be difficult for MSME managers to prepare financial reports given their low educational background. The difficulty of MSMEs in accessing loans is also due to the fact that in general MSME managers do not have collateral as a condition for obtaining loans from Banks because this guarantee can reduce the risk of a loan (Bougheas et al., 2005). In addition, the average MSME managers do not have an account at a Bank. They only understand the traditional way of saving money. The Bank also considers account ownership as an important factor because it shows how people are able to access Banking services (Cheston et al 2016 in Nugroho, 2017). From the results of the analysis, it is known

that there has been an asymmetry, on the one hand, the purpose of Banking is to assist the development of MSMEs, but on the other hand a number of complicated requirements are applied that are not easy to be carried out by MSME managers who generally have low educational backgrounds.

5. Conclusion

The results of this study indicate that MSME managers in the North Bogor area still have difficulty accessing loans to formal Banking institutions due to 2 things, namely the low socioeconomic conditions of MSME managers, as evidenced by not having a Bank account, not having collateral, and not having a partnership. Another thing is the problem of the educational background of MSME managers which is considered very low so that in general, they are not able to make good proposals, make financial reports, do not understand marketing problems and business development concepts. Therefore, the Banking sector is expected to simplify and facilitate the requirements for MSME managers as well as provide guidance related to the professional management and development of MSMEs. For further research, the researcher suggests that research related to the accessibility of MSMEs to Banking institutions be conducted with a different approach.

References

- [1] Adinirekso, G. P. (2011). Akses Usaha Mikro Kecil dan Menengah ke Perbankan di Kabupaten Gunung Kidul dan Sleman. *JRMB*, 6, 1-9.
- [2] Badriyah, N. (2009). Peran Intermediasi Perbankan Terhadap Usaha Mikro Kecil dan Menengah (UMKM). *Jurnal Ekonomi Pembangunan*. 7(2), 183-208.
- [3] Bank Indonesia. (2010). Kajian Akademik Pemeringkat Kredit Bagi Usaha Mikro, Kecil dan Menengah di Indonesia. *Bank Indonesia*. Jakarta.
- [4] Berger, A., & Udell, G. (2006). A more conceptual framework for SME financing. *Journal of Banking and Finance*, 30(11), 2945-2966.
- [5] Bougheas, S., Mizen, P., & Yalcin, C. (2005). Access to external finance: Theory and evidence on the impact of monetary policy and firm-specific characteristics. *Journal of Banking & Finance*, 30(1), 199-22.
- [6] BPS. (2018). *Potensi Usaha Mikro Kecil Provinsi Sumatera Barat*. BPS Provinsi Sumatera Barat, Padang.
- [7] Burkart, M.C., & Ellingsen, T. (2004). In-kind Finance: A Theory of Trade Credit. *American Economic Review*, 94(3), 569-590.
- [8] Creswell, John W. 2009. *Research Design (Pendekatan Kualitatif, Kuantitatif, dan Mixed)*. Yogyakarta : Pustaka Pelajar.
- [9] Darwin (2018). UMKM Dalam Perspektif Pembiayaan Inklusif di Indonesia. *Jurnal Ekonomi dan Pembangunan*. 26(1), 59-75. <http://dx.doi.org/10.14203/JEP.26.1.2018.59-76>.
- [10] Harvie, C., Narjoko, D., dan OUM, S. (2010). Firm characteristic determinants of SME participation in production networks. *Research Paper*. Online available: <http://www.eria.org/pdf/ERIA-DP-2010-11.pdf> [Accessed: 27 June 2020].
- [11] Haryani, D. dan Mulyaqin, T. (2013). Aksesibilitas Petani Padi Sawah Terhadap Sumber Permodalan dan Faktor-faktor yang mempengaruhinya di Provinsi Banten. *Buletin IKATAN* 3(2), 22-35.
- [12] Honhyan, Y. (2009). *The Determinants of Capital Structure of the SMEs: An Empirical Study of Chinese listed Manufacturing Companies*. [Online] Available: <http://www.seiofbluemountain.com/upload/product/200911/2009.pdf> (June 15, 2020)

- [12] International Finance Corporation. (2016). UKM yang dimiliki Wanita di Indonesia: Kesempatan Emas untuk Institusi Keuangan Lokal. *Studi Penelitian Pasar*. Kerjasama antara International Finance Corporation dan USAID
- [13] Kitindi, E.G., Magembe, B.A.S., & Sethibe, A. (2007). Lending decision making and financial information: the usefulness of corporate annual reports to lender in Botswana. *International Journal of Applied Economics and Finance*, 1(2), 55-60.
- [14] Merriam, S.B. (1988). *Case Study Research in Education A Qualitative Approach*. Jossey-Bass San Francis-co.
Ledgerwood, Joanna. (2013). *The New Microfinance Handbook: A Financial Market System Perspective*. Word Bank: Washington D.C
- [15] Miles, M.B, Huberman, A.M, & Saldana, J. (2014). *Qualitative Data Analysis, A Methods Sourcebook*, Edition 3. USA: Sage Publications. Terjemahan Tjetjep Rohindi Rohidi, UI-Press.
- [16] Nugroho, A.E. (2017). *Politik Ekonomi Kredit Program Untuk Pemberdayaan Usaha Mikro-Kecil: Dari Bimas Hingga Kredit Usaha Rakyat*, Bab 5 Dalam Buku, Saptia, Yeni dan Nugroho, A.E., (eds), 2017, Penguatan Peran Program Kredit Mikro Dalam Mendorong Pengembangan UMKM Di Sektor Pertanian, Jakarta: LIPI-Press
- [17] Pandji Anoraga. (2010). *Ekonomi Islam Kajian Makro dan Mikro*. Yogyakarta: PT. Dwi Chandra Wacana. hal. 32
- [18] Panjaitan, Rosintan D. M., Drioadisuryo, dan Cloud, K. (1999). Gender, SelfEmployment and a Micro Credit Program: An Indonesian Case Study. *The Quarterly Review of Economics and Finance*. 39 (5), 1999:94-105.
- [19] Pretorius, M., & Shaw, G. (2004). Business plan in Bank-decision making when financing new ventures in South Africa. *South African Journal of Economics and Management Science*. 7(2), 221-242.
- [20] Remenyi. (2000). *Is There a State of the Art in Microfinance dalam Microfinance and Poverty Alleviation: Case Studies from Asia and the Pacific*. Routledge, London.
- [21] Stake, R. (1995). *The art of case study research* (pp. 49-68). Thousand Oaks, CA: Sage
- [22] Sugiyono. (2010). *Metode Penelitian Pendidikan Pendekatan Kuantitatif, kualitatif, dan R&D*. Bandung: Alfabeta.
- [23] Sugiyono. (2013). *Metode Penelitian Kuantitatif, Kualitatif dan R&D*. Bandung: Alfabeta.CV.
- [24] Tambunan, T. T. H. (2011). Development of Micro, Small and Medium Enterprises and Their Constraints: A Story from Indonesia. *Gadjah Mada International Journal of Business*, 13(1).
- [25] Wedelia, L., Hutagaol, M. P., dan Daryanto, A. (2017). Aksesibilitas Industri Pangan Skala Mikro Kecil Terhadap Sumber Pembiayaan Formal di Kabupaten Bogor. *Jurnal Agribisnis Indonesia*. 5(1), 27-38.
- [26] Wincent, J. (2005). Does size matter? A study of firm behavior and outcomes in strategic SME networks. *Journal of Small Business and Enterprise Development*.