

THE PERCEPTION OF SME ACTORS TO THE CAPITAL ACCESS IN THE FINANCIAL INSTITUTION

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ABSTRACT

The small and medium enterprises (SME) are a strategic sector in the national economy, contributing abundantly to production. The Indonesian government has tried to develop the real sector to eliminate SME's barrier to capital access guarantees. Financial problems in a company, and inaccessibility to formal funding, hamper growth. This study examines empirical evidence of SME perceptions of capital access in financial institutions. It uses qualitative analysis with primary data from the SME owners. The study was conducted in PIK Pulogadung, East Jakarta, with a total of 120 participants.

Keywords: Capital Access, SMEs, Financial Institutions.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) is an essential sector for resilient national economies. For instance, it was recognized as a safety valve during the economic crisis in Indonesia. The sector was relatively resistant to economic shocks, and therefore, facilitated the national economic recovery. However, with high financing needs, most MSMEs cannot fund business growth from their savings. For this reason, they often rely on loans from third parties. The Indonesian Government has tried to overcome difficulties in capital accessibility. This is achieved through the provision of regulatory mechanisms by the Bank Indonesia policy. The government fosters and provides soft loans from capital distribution banks, such as Bank Mandiri that provides Indonesia's microcredit program (KUR) to 39,000 SMEs. The total financing in November 2015 was approximately 1.7 trillion (detikfinance.com, 2015).

Certain conditions, such as the availability of accounting information, are vital in granting capital loans. Accounting information helps entrepreneurs make essential decisions, identify business developments, and manage company finances. To obtain credit, SMEs have to meet these requirements for accounting information. Ediraras in Kusuma (2013) stated that accounting information is vital for decision making, including (1) purchasing raw materials and production equipment, (2) prices determination (3) seeking additional capital (4) business development, and (5) human resources development and addition of business assets.

Banks need to know the conditions of companies applying for loans. For this reason, financial statements are critical to the banks. Most MSMEs are after large profits without considering their business future. For this reason, accounting reports are necessary to manage various transactions (Irwan, 2011). According to Rudiantoro and Siregar (2012), micro and small-sized enterprises do not use accounting information in managing businesses.

The study focuses on financial institutions as a funding source for entrepreneurs. This is critical because the banks have clearly defined funding obligations to the MSMEs. Therefore,

MSMEs accurately organize themselves and to gain lenders trust and solve their financial needs. This research examines the perception of MSMEs in financial institutions.

LITERATURE REVIEW

Financial Institutions and SMEs Capital Access

Capital access is the availability of financial services at a reasonable cost (Claessens et al., 2006). It may also refer to the absence of price and non-price barriers (Demirguc-Kunt & Levine, 2008). According to the OECD, capital assets relates to the percentage of companies using financial services.

Capital access minimizes external funding constraints that limit company expansion. Giovanni (2010) stated that entrepreneurs participate in economic development to utilize new opportunities and improve their businesses. Capital access through financial institutions is vital for the expansion of small businesses. To achieve this, the credit banks should readily respond to the needs of SMEs and increase their capacity through internal cash flow. SMEs are classified into:

- a) A small enterprise with an annual turnover of less than Rp 1 billion.
- b) A medium-sized enterprise with an annual turnover of between Rp. 1 billion and Rp. 50 billion.

The concept of accessibility to credit sources is based on Diagne and Zeller (2001). The households accessed sources credit in case they could borrow from them, though they chose to choose this option for various reasons. In general, factors affecting credit accessibility are analyzed by differentiating MSMEs using credit from those that do not. Accessibility is more emphasized to formal financial institutions. MSMEs are productive businesses owned by individuals or individual business entities, having 1-19 employees (BPS, 2018). The micro-business has an impermanent place and change in commodities (Bank Indonesia, 2014). A rapid change may occur in the type of activity. The majority of these enterprises are owned by lower-class people with little or no knowledge of sources of relevant information.

The efforts by the government to improve the performance of MSMEs were still inadequate, although financial institutions are required to channel their funds to MSMEs. According to the Regulation (PBI) No. 17/12 / PBI / 2015 dated 25 June 2015 on Amendments to Bank Indonesia Regulation No. 14/22 / PBI / 2012, and PBI No. 14/22 / PBI / 2012 on Provision of Credit or Financing financial institutions allocate financing to MSMEs in stages.

RESEARCH METHOD

This research used a descriptive exploratory approach. Primary data was obtained using questionnaires distributed to the respondents. The study was conducted in East Jakarta at the Center for Small Industries (PIK) in Cakung with a population of 300 SME entrepreneurs registered in the PIK cooperative. A total of 120 respondents were selected through random sampling.

FINDING AND DISCUSSION

Respondents Profile

Respondent profiles were classified by gender, education level, occupation, and age.

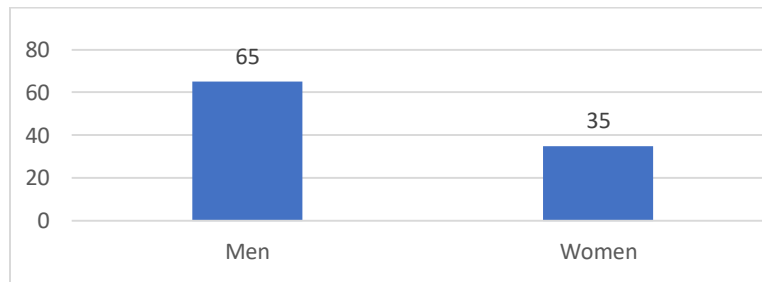


FIGURE 1
CLASSIFICATION BASED ON GENDER

From the Figure 1, 35% and 65% of the respondents were women and men, respectively. The male-dominant profile reflects competitiveness and resilience.

The second classification was based on education level, reflecting the knowledge and skills of entrepreneurs. The ability, insight, and confidence of the respondents are affected by education level.

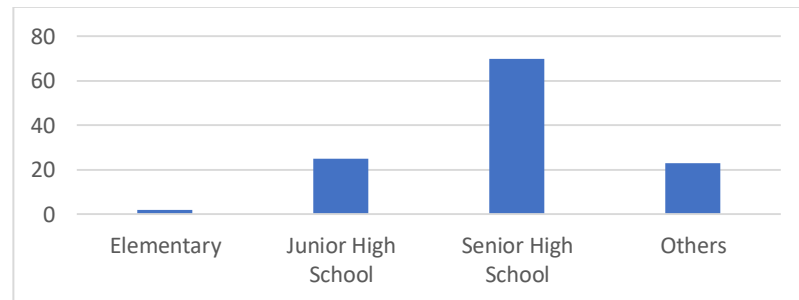


FIGURE 2
CLASSIFICATION BASED ON EDUCATION LEVEL

The Figure 2 shows that 58.3% and 1.7% of respondents have high and elementary school education level. This implies that most of the samples are entrepreneurs with sufficient knowledge, insight, and confidence in carrying out their operational activities.

Respondents are also classified based on the type of work, as depicted by the Figure 3 below:

A total of 87.5% of respondents chose their enterprises as their primary job, while 12.5% considered it as a side job. The data indicates that most entrepreneurs give manage their business full-time.

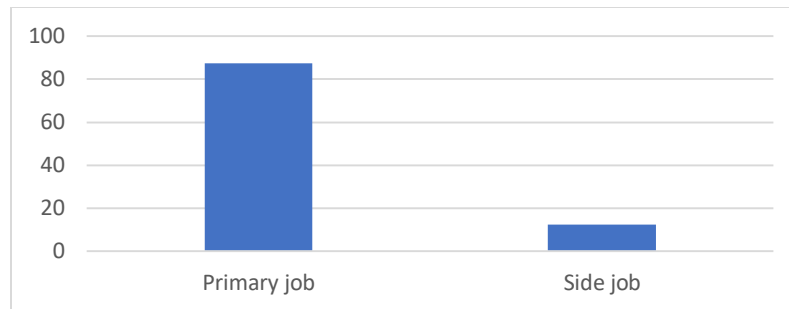


FIGURE 3
CLASSIFICATION BASED ON THE TYPE OF WORK

A majority of respondents preferred to work as full entrepreneurs in MSMEs, reflecting the commitment, and confidence. (Robbins, 2007). Furthermore, entrepreneurs with MSMEs as the main source of income, tend to more effective than those running their business as only a side responsibility.

SMEs Business Profile

The SMEs in the PIK Pulogadung have diverse business segments. The profile data occupied by entrepreneurs in PIK, including the capital, type, and the scale of business were determined.

Information on the amount of initial capital issued also vary greatly. A total of 63% of entrepreneurs issued initial venture capital of Rp 5,000,000 - Rp 50,000,000. However, 3.3% started at zero. Also, 1 respondent had a fantastic business capital of Rp 125,000,000.

PIK Pulogadung is by trading with a 74% market share, followed by manufacturing at 17.5%. Manufacturing is a business production and distribution of products to the public. The business scale in the PIK Industry encompasses 3 classifications, specifically wholesale, retail, and a combination of the two. This classification facilitated an understanding of the behavior of people in PIK in reaching the reach market share and the extent to which the motives and resources affect the business scale. The selection of the scale is a clear indication of the market share outreach by business actors.

Most entrepreneurs run both whole-sales and retail, with a market share of 52.5%. They chose to diversify their market reach to attract consumers. In the next sequence, retailers 40% of the retailers focus more on the direct user consumer segment, while 13.3% of them act as wholesalers that only accommodate the needs of resellers.

The choice of business model is influenced by the funds needed. Availability of funds drives some to act as wholesalers. Entrepreneurs actively expanding their market share by operating two scales simultaneously handle complex management processes. Technical matters regarding the selling prices, recording of sale and purchase transactions, inventory management, and financial reporting also depend on the business model. The size of the business scale is also closely related to the number of assets owned.

SMEs Motivation towards Financial Institutions

Families and privately-owned funds are the main sources of financing at PIK. Specifically, they provide 32% 29.6% of the funds, respectively. Most of them are family businesses

reluctantly accept external funding. The data indicates that 42.4% of SMEs had never used credit, and 19.2% had applied for loans in the last 1-2 years.

Most SMEs have not utilized credit from financial institutions Figure 4. The range of funding requirements is relatively small, specifically less than Rp. 5,000,000 in 1-2 years. Also, the respondents stated that the profit-sharing system most suitable for them was monopolized by the cooperative.

The interaction of enterprises with financial institutions is well established. It was documented from the questionnaire results, which show that only half the population has taken credit shown in Figure 4.

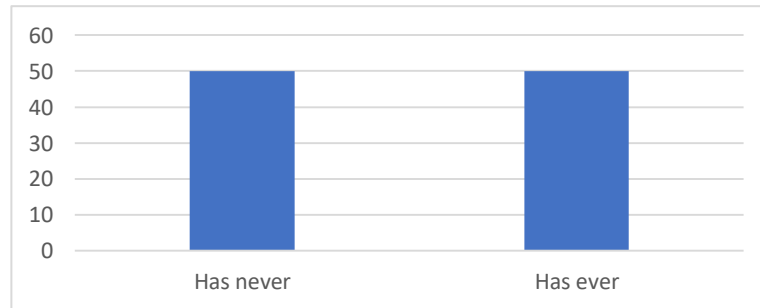


FIGURE 4
CREDIT EXPERIENCE TO FINANCIAL INSTITUTIONS

The financial knowledge of PIK Pulogadung MSMEs is good. They have interacted with bankable financial institutions. It is vital to explore the potential of 50% that do not take the opportunity of being funded.

An analysis of motive reveals good financial potential. Specifically, 42.5% showed a willingness to loan financial institutions, 29.2% did not approve the move, while 28.3% did not express their opinions. Figure 5 explains this in numbers.

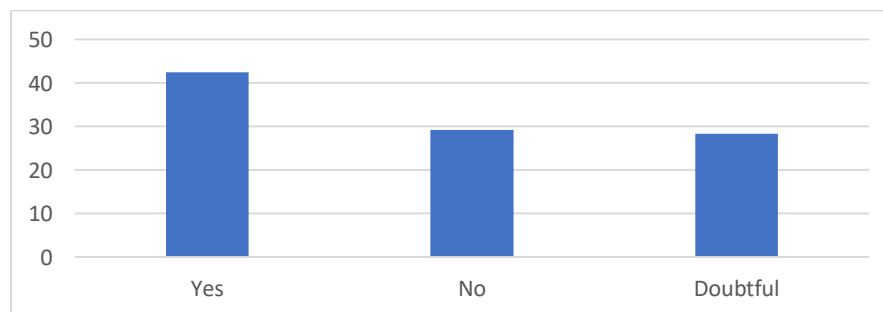


FIGURE 5
CREDIT MOTIVATIONS TO FINANCIAL INSTITUTIONS

The motivation of the respondents' reluctance to use funding opportunities has not been determined. Market potential of 57.5% is still a task for financial institutions due to a good understanding of the respondents' financial aspects. More constraints revealed, precisely due to belief in usury. This led to the preference for Islamic finance. Besides, some respondents find it challenging to deal with banks, while the rest cannot account for the respondents' reluctance.

The MSMEs of PIK Pulogadung, around 55.8%, prefer funding from a conventional bank. This is based on the availability of terms, access, and process. The preference for Islamic financial institutions is 12.5%, while 4.2% of them may choose either of the two. The remaining 27.5% did not state their preference, as shown in Figure 6 below.

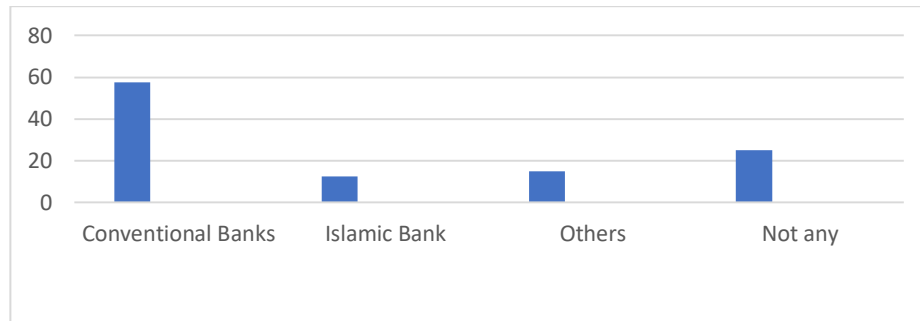


FIGURE 6
FINANCIAL ACCESS PREFERENCES OF FINANCIAL INSTITUTIONS

The empirical data confirm the motives of business actors not interested in consistently lending to financial institutions. A slight difference of 0.8% indicates consistency since 28.3% did not intend to make loans, while 27.5% did not mention preferences. The number of respondents using funds from financial institutions also is consistent with a relatively similar pattern for conventional banks.

ANALYSIS

Capital Access at SMEs PIK Pulogadung

The aspects of capital access are divided into accessibility and financial institution funding preferences. Both support each other in explaining the behaviour of the MSMEs in PIK Pulogadung, as explained below:

Accessibility to financial institutions:

The size of assets owned by business actors reflects the resources they have, especially in increasing the trust in other parties to provide additional funding. The asset factor is a mandatory requirement for funding, especially in Bank Financial Institutions. Proper business ownership and the number of branches is critical for funding approval. From the empirical data, 39.4% of entrepreneurs in PIK have merchandise, stalls, 33.3% stalls, while the rest have a maximum of 2 branches. This means more than one-third of the population has better accessibility due to debt collateral required by the financial institution.

MSMEs in the PIK area consists of small entrepreneurs. This is shown by the income scales of 3 categories with the highest frequency. Each daily income lies within range of IDR 50,000 to IDR 500,000 (36.7%), followed by IDR 1,000,000 to IDR 2,000,000 (23.2%) and IDR 500,000 to IDR 1,000,000 (19.2%). This dominance illustrates an under-management of PIK, since the range in earnings per day is relatively high, hitting 11%. Therefore, the business wheel opportunity in the Pulogadung PIK environment has the potential to be developed. Evaluation of the empowerment of entrepreneurs in PIK to develop and increase their profits, as well as the

obstacles encountered necessitates further investigation. Pinpointing the problem in the current state of affairs provides alternative solution aspects that need to be addressed, including, accessibility of funding, marketing, access roads to PIK locations, raw material supply, and speed of information and technology.

Preference for Using Financial Institutions Funding:

The active participation of MSME actors in utilizing financial accessibility is attributed to the ease of obtaining the funding. This can be found in several forms: friendly requirements in the banking industry, accessible banking locations, and the speed of loan processing. The preference for conventional banks is attributed to easier conditions, more competitive interest rates, and easy access to locations. In contrast, other funding sources create pressure and risk of asset transfer with a relatively fast time specification. MSMEs entrepreneurs in PIK prefer a family-oriented system, since it is lenient. The feeling of security the virtue of being free of debt, especially in conventional banks, are also critical.

CONCLUSION

From the study, the following conclusions can be drawn:

1. The PIK Pulogadung SMEs illustrate a developing industry, both viewed from entrepreneurs and the industry in 2018. The trend is increasing consistently from the increasing number of MSMEs entrepreneurs.
2. The SMEs entrepreneurs in PIK have good asset ownership as a guarantee for loans, the main requirement by financial institutions. The business wheels in PIK Pulogadung have the potential to be developed.
3. SMEs entrepreneurs in PIK prefer a family system whose provisions are relatively loose. Conventional banks are a preference for their funding, due to easier conditions, more competitive interest rates, and easy accessibility.

RECOMMENDATIONS

The study recommends the following:

1. Socialization and training in preparing financial reports are key in facilitating accountability in the use of business funds. It improves the ability of MSMEs businesses relations to income and employment.
2. MSMEs entrepreneurs need assistance in getting capital access, especially in preparing financial reports.

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