

Suryani et al., 2015

Volume 1 Issue 1, pp.1076-1087

Year of Publication: 2015

DOI- <https://dx.doi.org/10.20319/pijss.2015.s11.10761087>

This paper can be cited as: Suryani, T., L., & Iramani, R. (2015). The Challenge of Financial Inclusion for Small and Micro Enterprises in Indonesia. PEOPLE: International Journal of Social Sciences, 1(1), 1076-1087.

This work is licensed under the Creative Commons Attribution-Non Commercial 4.0 International License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-nc/4.0/> or send a letter to Creative Commons, PO Box 1866, Mountain View, CA 94042, USA.

THE CHALLENGE OF FINANCIAL INCLUSION FOR SMALL AND MICRO ENTERPRISES IN INDONESIA

Tatik Suryani

Department of Management STIE Perbanas, Surabaya, Indonesia
tatik@perbanas.ac.id

Lindiawati

Department of Management STIE Perbanas, Surabaya, Indonesia
lindi@perbanas.ac.id

Rr. Iramani

Department of Management STIE Perbanas, Surabaya, Indonesia
iramani@perbanas.ac.id

Abstract

Small and Micro Enterprises (SMEs) in Indonesia have many problems for growing and gaining competitive advantage. The main cause of the problem is that they are unable to access financial institutions, specifically banking. This research objective is to explore financial inclusion for among SMEs' financial behavior perspective and their challenges. Research involved SME owners who produce local nominated products. By using depth interview, questionnaire and triangulation methods, the results show that most SMEs are lack of knowledge on banking product and services, besides the high rate of interest has made them to choose banks as sources of fund. Due to insufficiency of knowledge and experience led them reluctant to use banking

products and services. The availability of bank branches around SMEs area, their unfamiliarity with technology, the unavailability of financial reporting documents and collateral have led them prefer personal loan to bank loan. Personal loan is considered a simple way of getting financing. Based on these findings it means that government as the regulator should educate them to about banking and financial capability and encourage bank not only to give credit but also assist them to manage their financial properly

Keywords

Micro Enterprises, Small Enterprises, Financial Inclusion, Financial Capability

1. Introduction

Financial accessibility is one of big problems in Small and Micro Enterprises (SMEs) in Indonesia. SMEs are not only find difficulty to get financial resources for growing their business but also not many of them use some of banking products for supporting their business. Research found that the lack of knowledge about banking product and services such as credit services made them made them UN bankable. (Faiza Hikmah & Tatik Suryani, 2014). Central bank of Indonesia stated that only 30 % from population in Indonesia have bank account. (<http://www.bi.go.id/id/perbankan/keuanganinklusif/>).

Nowadays, there is not much comprehensive study about the cause of difficulties accessing banking institutions in micro-enterprises. Though micro enterprises in term of regulations belong to the business that have turnover fewer than 300 million rupiah and asset of up to 50 million rupiah plays an important role in the Indonesian economy. The existing studies on access to financial institution and financial inclusion mostly cover the community perspective. For example, a study conducted by Fungacova & Well (2015) about financial inclusion in China, a study from Demiguc-Kunt & Kappar (2012) in Africa, and Sinclair (2013) in England on the context of European countries. Therefore, it is important to carry specific research to the community, especially SMEs which play an important role to the economic growth of a nation.

The study will focus on the causes of difficulty which related to micro-enterprises in accessing financial institutions. Attempts to explore the cause of the difficulty are important to help create regulations and policy which in turn help increasing the possibility to access financial

institutions, in addition to the development program and micro-enterprise development. In the future this effort are expected to increase the financial literacy of micro-enterprises which already have the potential to grow because the increase of their product quality and market growth.

2. Theoretical Review

2.1 Financial Inclusion

Financial inclusion becomes an important policy in many countries for increasing formal financial services access for low class in developing countries. Financial inclusion is defined as the timely delivery of financial services to disadvantage section in society (Ramdji, 2009). In the simple way, financial inclusion defined as the use of formal account (Allen *et al*, 2012). In the wider context people got difficulty to access from the simplest formal institution product and service such as saving and credit until the complex one such as pensions and insurance. Bruhn & Love (2014) found that some of societies can't access formal financial services. They have many barriers to get access of financing access from formal financial institution.

A comprehensive study that focus on financial inclusion which is conducted in 148 countries have resulted World Bank Global Index (WBGI) become a reference in many studies about financial inclusion (Deminiguc-Kunt & Klapper, 2012). This research also investigated how people behavior in saving, borrowing, making payment and managing risk. This research should be explored further to investigate why this situation occurred in that country.

In developing countries, a crucial problem for small and medium enterprises is un sufficiency of finance to develop their business. The problem will be overcome by facilitating access for micro enterprises to formal financial institution. Be providing technology, opening financial such as banking branch ad many areas, and educating about financial institutions and their products and services will reduce the problems.

Study about financial inclusion in Africa revealed that insufficient legal documentation, cost, and the distance from bank influence people to use bank (Deminiguc-Kunt & Klapper, 2012). As the formal financial institution legal documents requirement is very important to open account and use many kinds of product such as credit. Banks have prudential principle for delivering credit for SMEs. The other obstacle is location. Location has correlation with accessibility. In location which is far from urban, the further location the higher cost to access.

From marketing perspective, it's about the distribution. Distribution strategy as marketing mix will influence people for buying decision making (Kotler and Armstrong, 2013). Beside legal documentation, location cost also one of barrier factor to open bank account.

Sinclair (2013) conducted research to review the comments of stakeholders on the condition of people in England that had not been in touch with good financial inclusion. In getting loan, people preferred to get from the door-to-door creditor instead of getting one from banks. There are six aspects of getting in a financial inclusion, namely accesses to the banks, credits, insurance, savings, and financial consultancy and of course the understanding of financial literacy. The result of the research was that the minimum level of the credit range determined by the banks was still too much for the customer, while the credit term was very short. This result led to an implication that there should be credits design for that group of customers. The success of the program due to the main policy of government which were basic bank account offering simple bank transactions such to ATM, debit facility, salary transfer., and the second policy was *post office card account* (POCA) which was the payment of wealth allowance for people through post office.

2.2 Small and Micro Enterprises (SMEs) in Indonesia

SMEs have been showing very crucial roles in supporting the economic development of Indonesia. They have been strengthening Indonesia employment that help the rate of national unemployment, improve productivity, and improve economic informal sectors. In economic crisis SMEs also proved their sustainability and became pillars of economic force.

In term of assets and marketing performance and based on act no 20/ 2008 of Republic of Indonesia, SMEs are entity that cover small and middle level enterprises. Small enterprises are those: 1) having assets which is more than Rp 50.000.000 – Rp500.000.000 excluding property (land and building for the business); 2) having annual sales which are more than Rp300.000.000 - Rp2.500.000.000. Middle enterprises are those having: 1) assets which are more than Rp 500.000.000 – Rp 10.000.000.000 excluding property (land and building for the business); 2) have annual sales which are more than Rp 2.500.000.000 - Rp 50.000.000.000. Micro enterprises have assets and annual sales under the small enterprises category.

Most of Indonesia's SMEs are those of small ones. Anyhow they still have low competence and less developed due to the limited access to financial institutions especially

banks. The second level of the middle level enterprise take about 1.12% only, but have a very strong potential and are able to support the economic development as long as they are well developed.

Indonesia Central Bank in 2012 did a study showing that the most difficult problem faced by SMEs was that they found difficulties in accessing banking service of getting loans. This is due to the lack of knowledge on banking funding and credit services of the banks including the requirements of credits, lack of competence in managing business especially the financial aspect which is considered less professional. Anyhow the banks are lack of giving solution on the problems faced by the SMEs.

3. Methodology

This research design is exploratory study with qualitative approach. Research involved 65 small and micro entrepreneurs who produce advantage local products in seven regions which is selected by randomly. To enhance data quality, respondents should have prior experience in business, at least three years of experience. From 75 which volunteered to be respondents, 65 of the respondents are successfully interviewed. By targeting specific respondents, the respondents are expected to have known about financial institution and have proper experience in doing business.

The interview is focused on business development, and the barriers respondents experienced in accessing financial institutions. There are several inhibiting factors which were asked in the interview, this is related to the constraint of the business, the ability of the entrepreneurs/businessman, and the banking policies related to the financing of the businesses. Interviews were conducted not only with micro entrepreneurs, but also with the chairman of the business group which deemed to understand the behavior of micro-enterprises. Hence, the data can be triangulated. The data were analyzed with descriptive statics and triangulation.

4. Results and Discussions

Descriptive analysis of the demographics respondents indicate that most respondents are males, which are 58%, and the rest are female. Moreover, the educations of the respondents which only had high school education / vocational were less than half which are 48%, while the

educated bachelor are only 3%. Although the majority had high school education, their business performance is very good. This is because they tend to learn from their experience and have the ability to learn and tenacious to develop their business and seek business opportunity. They have their success because they have entrepreneurial characteristics.

The survey showed that 34% of respondents have difficulty in accessing financial institutions, and 66% expressed no trouble. Although 66% had no difficulty in accessing financial institutions, however, in terms of the utilization of financial products and services the utilization of it is still low the conditions to access the financial institution and the difficulty experienced by micro entrepreneur’s almost identical conditions which occur in India and other developing countries. The World Bank study conducted surveys on the informal sector enterprises revealed that the main obstacle faced by these groups is access to funding (Farazi, 2014).

The reason SMEs have difficulty in accessing financial institutions is due to several factors. Results of research conducted on the problems experienced by SMEs in accessing financial institutions presented are in Figure 1

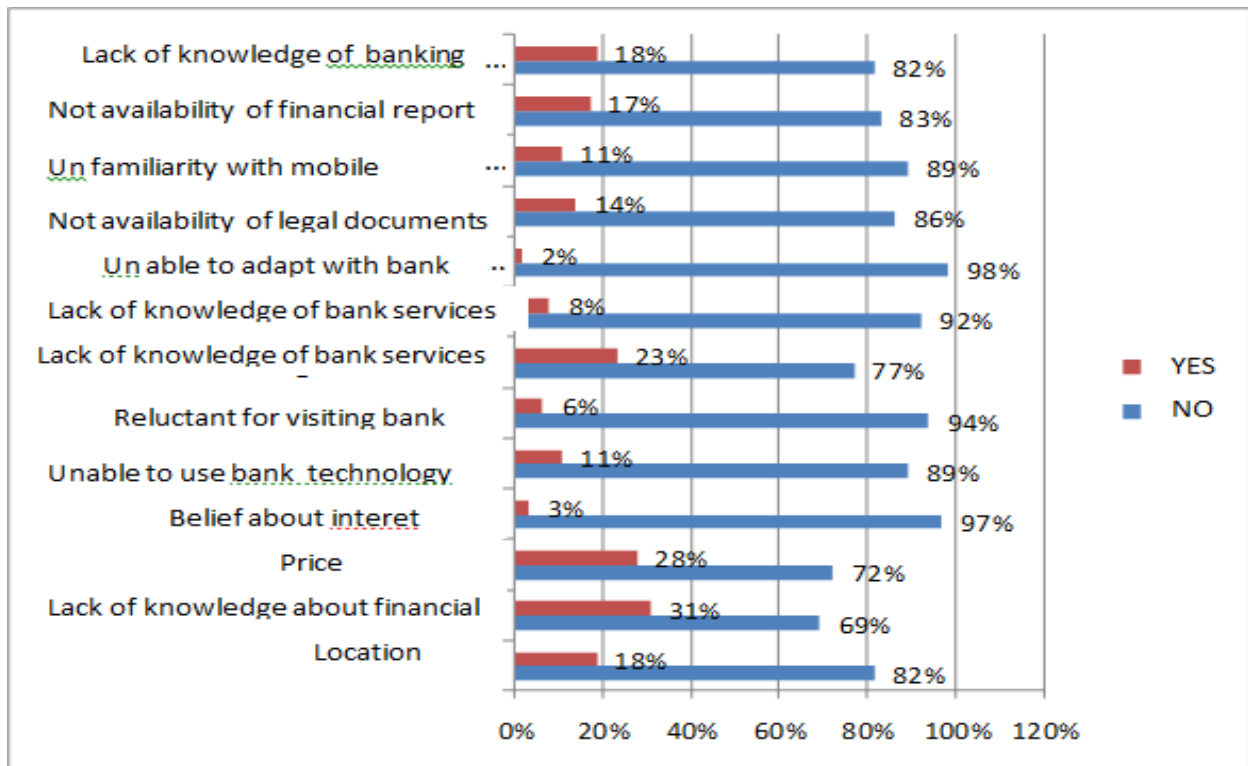


Figure 1: *Financial Access Constraints of Small and Micro Enterprises*

The main obstacle in accessing financial institutions, particularly banks is because SMEs are lack of knowledge about bank products and services. There are 31% of SMEs who do not know the banking products and services. This shows that the banking products and services which are actually helpful in business development cannot be utilized properly because the lack of information about it. Availability of financial institutions, especially in areas closer to the center of superior products are required to enable by micro entrepreneurs to access bank manager. The presence of bank employees when interacting with SMEs and provide credit services to SMEs only focus on credit services only, without being followed, promoting or disseminating products and other banking services, in this case important for by micro entrepreneurs.

Ignorance of these products and services also lead to miss perception of bank. Some of respondents explained that “Getting credit from the bank requires a lot of procedure, the terms are too many and lots of time was wasted just to take care of it”. This misperception occur because incomplete information received by the SMEs. They receive negative information about the legal consequences if the loan cannot be paid in accordance with the provisions. Information about the benefits of credits and the variety of solutions if micro entrepreneurs have trouble in paying credit should be delivered, so it's not influencing fear that makes by SME entrepreneurs hesitate to apply for credit. In the context of customer behavior, the perception which does exactly this will affect the behavior of customers in the credit decision-making. It's relevant with psychological theory in decision making buying behavior that perception will influence the decision and buying behavior. (Tatik Suryani, 2013)

Another aspect that also needs attention is the lack of knowledge of by SMEs to various banking products and services. Various banking products such as working capital loans, investment loans, deposits, current accounts, and others need to be introduced to the managers of by SMEs The benefits of these products need to be introduced so that by SM entrepreneurs are interested in using a wide range of banking products and services. Customer seeks benefits when they prefer the product, not only product benefits but also relationship benefits. Relationship benefits should be provided for SME to make them loyal and trust.. Research found that relationship benefits have positive impact on trust Kelly & Scoff, 2012) and loyalty (Ruiz-Molina *et al.*, 2009).

The second factor which becomes an obstacle is the interest rate which perceived to be high by SMEs. In general, by SMEs as well as other customers will consider price as one of the important aspect in making credit decisions. This is normal, because the tendency of SMEs who would rather take money from your source of financing or family who do not wear the fees of a comparison of the less rational. These results consistent with Deminiguc-Kunt & Klapper (2012) that cost, including bank interest as a barrier to access bank. Reducing cost and setting fair interes for SME is very important. If SMEs want to grow and only rely on self-financing sources, in the long term they will have financial obstacles and limiting their growth.

The Perception of high interest rates should be connected to the benefits or opportunities that can be achieved if the business develops. This perception could happen because the majority of by micro entrepreneurs do not have a business development plan with clear indicators on each year. Enterprises developed as a reactive measure on current business conditions. Therefore, it is important to give information about managing better funds which in turn can be used to pay debts and interests.

Additionally there is a concern about the difficulty in using technology. This needs to become an important concern. Technological developments in the banking sector will provide convenience to customers to use banking products and services. Educational conditions of SMEs are mostly educated elementary school, junior high school (86%) causes them less keep up with technology, and it is difficult to learn new things. Therefore education or socialization that encourages by SMEs entrepreneurs familiar with the technologies which are still synergized with various development programs is important. In Africa mobile money payment is used to facilitate financial inclusion (Domirque-Kunt and Klapper, 2012).

Awareness and the ability to use technology in the banking sector is important because it is one of the factors which will determine how by SMs entrepreneurs access the banks and the utilization of various banking products. The role of government is very important for this education. If by micro entrepreneurs have an awareness of the importance of mastering the technology, the financial inclusion program will be successful. Banks do not have to open branches in areas that are the economic feasibility expensive to do, but simply providing technology, SMEs have been able to access banking and use of various products and services

business. From the existing data the difficulties of using this technology occurred in 11% of respondents this is because of the difficulty in using banking technology, which occur in 23% of the respondents.

Another obstacle that causes the difficulty of by SMEs in accessing bank is due to the location. As many as 18% of respondents experienced difficulty of access due to the location of the bank is far from their place of business. Results of studies conducted in several countries showed that the location or availability of banking financial institution) becomes an important factor in access to finance..

The problems which occurred because the banks are far located from business which happens to be supported by technology constraints causing more difficulties SMEs to access bank Therefore, in order for by SMEs to take advantage of banking products and services in support of business, by Sensed to be encouraged to be able to use banking technology. Programs geared specifically to by micro entrepreneurs in identifying banking technology and its products and services are very important to be done by the Government.

Constraints in accessing bank as a result of the difficulty in using this technology can also occur because of the experience of by micro entrepreneurs are lacking in conducting transactions at the bank as well as utilizing products and other services. Because of this condition, a program which introduces by SMEs to the bank features and all the information related to it are important. The existence of a positive experience related to banking will make it easier for by micro entrepreneurs to access banking.

Another problem is due to the constrained availability of financial statements (17%) and difficulty in meeting legal document guarantees to obtain financing sources (14%). This condition occurs the by SMEs in both urban and rural. When explored further, financial management are managed in a modern, supported by financial report and are not to be carried out by SMEs. Due to the absence of financial document including financial report, ethics applying for credit and legal documents will result on rejection or hesitation of the bank to provide credit. The bank also did not dare to provide large amounts of credit because it would be risky for them.

Another factor which also becomes a barrier, although not very significant is the conviction rate is the reluctant to go to the bank. Uncomfortable feeling when coming to the

bank and difficulty in adjusting to the bank, and not accustomed to using mobile phones to make transactions make SMEs avoid using bank for business.

Based on the results, it is a very important thing to do is to educate (educate) SMEs. Education for SMEs carried out on a group of small businesses such as community centers SMEs in industries with the introduction of banking products, and benefits in support of business development and implementation one-day business. Beside it Business Development Services (BDS) as an institution which provide training should be involved because these institutions play a role in consulting, training and other operational guidance on micro and small businesses in order to improve business performance, being able to access the market and compete.

In accordance with the role and function, program services provided BDS to small and medium enterprises (including micro entrepreneurs) are (Nurul Imamah, 2002: 10): (1) provide information services, (2) providing consulting services, (3) provide training, (4) implement mentoring and development SMEs, (5) doing business contacts, (6) assist in facilitating SMEs to expand their market, (7) help SMEs to gain access toward funding, (8) helping the development of SMEs in management and organization, (9) facilitate the development of technology, (10) preparation of proposals development. Studies conducted by Imamate (2008) revealed that the BDS facilitation is done in the form of access to capital, expand the market and technological mastery significant effect on the development of SMEs. Based on these results, the BDS can also be used as alternative institutions that assist SMEs in gaining access to the banking institutions.

5. Conclusions

Small and micro enterprises which have an important role such as for employability and supporting economic growth have a big problem for developing their business. One of crucial problem is UN ability to access the formal financial services institution. Financial inclusion should be overcome to enable them to access formal financial services especially bank. Based on the research , it can be concluded that there are thirteen factors that become constraints which are barriers SMEs access to bank: lack of knowledge about financial, price, un able to use bank technology, lack of knowledge of banking, not availability of financial report, not availability of legal documents, location, unable to use bank technology, un familiarity with mobile, lack of knowledge of bank services, reluctant for visiting bank, belief about interest, un able to adapt

with bank.

All barriers can be classified into four categories: lack of knowledge related bank and technology, interest (the interest of banks too high), location, and attitude (reluctant to visit bank and belief about interest). Education and socialization can be applied to solve the problem, to enhance SME knowledge and change their attitude and belief about bank. It should be integration program among parties, government, Business Development Services (BDS) and SMEs cluster to facilitate education process about banking. Beside it holistic policy from government to support this program also should be considerate.

References

- Allen, F. Demircuc-Kunt, A, Klapper, L. and M.S.M. Peria 2012. “The foundations of financial inclusion: Understanding ownership and use of formal accounts”, Policy Research Working Paper. The World Bank Development Research Group Finance and Private Sector Development Team, pp. 1 – 68.
- Bruhn, M., & Love, I. (2014). “The real impact of improved access to finance: Evidence from Mexico”. *Journal of Finance*, 69(3), 1347–1376. <http://dx.doi.org/10.1111/jofi.12091>
- Demircuc-Kunt, A. and Leora Clapper. 2012. “Financial Inclusion in Africa”. Policy Research Working Paper. The World Bank Development Research Group Finance and Private Sector Development Team, pp. 1 – 18.
- Faizatul Hikmah and Tatik Suryani. 2014. “The determinant of relationship quality in banking industries: SME perspective. The 3 rd International Conference on Business and Banking, Pattaya Thailand, pp. 1- 15.
- Fungacova, Z and L. Weill. 2015 “Understanding Financial Inclusion in China”. *China Economic Review*, No. 34. Pp. 196 – 206. <http://dx.doi.org/10.1016/j.chieco.2014.12.004>
<http://www.bi.go.id/id/perbankan/keuanganinklusif/Indonesia/strategi/Contents/Default.aspx>, access, 24 December 2015.
- Kelly, S. and Don Scoff. 2012. “Relationship benefits: Conceptualization and measurements in a business to business environment *International Small Business Journal*, 30 (3), pp. 3010-339.

- Nurul Imamah. 2008. 'Parana Business Development Service dalam Pengembangan Usaha kecil memengah Wedoro Centre Sidoarjo'. *Jurnal Management dan Kewirausahaan*, 10 (2), pp. 169 0 176.
- Ruiz Molina, M. Gil-Saura, I., and G. Berenguer-Contrí. "Relational benefits and loyalty in retailing: an intersector comparison. *International Journal of Retail & Distribution Management* Vol 37 (6), pp. 493 – 509.
- Sinclair, Stephen. 2013. "Financial Inclusion and Social Financialization: Britain in A European Context" *International Journal of Sociology and Social Policy*. Vol. 33 No 11/12. Emerald Group Publishing. <http://dx.doi.org/10.1108/IJSSP-09-2012-0080>
- Tatik Suryani. 2013 *Perilaku Konsumen di Era Internet*. Graha Ilmu. Yogyakarta.