
Access to Formal Credit of Indonesian SME : Study of SMEs in Sidoarjo

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Abstract

The aim of this study was to get a big picture of formal credit accessibility on Small Medium Enterprise (SME) in Sidoarjo. The sampling method used a purposive sampling, while the data was collected by distributing questionnaires (online and offline) from April 2nd - 30th 2018 from 100 respondent, who have access to credit at a formal financial institution. The study shows that the description of formal credit access in SMEs in Sidoarjo shows that it was classified as "easy". In general, applying for a credit at formal credit providers is quite easy for SMEs in Sidoarjo. But not all of SMEs have the same experience of accessing credit in an easy way, especially to increase the credit ceiling. There are still many SMEs were classified as a Microbusiness scale, which many SMEs still have a constraint that makes them cannot access credit easily. There is a large gap between SMEs that can access credit 1-2 times with SMEs that can access credit more than 10 times. This means that SMEs actually have access to formal credit, but not all SMEs have the same opportunity to access credit many times. The frequency of accessing credit is considered to be able to help business growth. This is in accordance with the existing facts, that at this time the availability of credit for microbusinesses has increased, such as KUR (People's Business Credit). This certainly can make it easier for SMEs to access credit.

Keywords: Accessibility; Formal credit; Small Medium Enterprise (SME).

BACKGROUND OF THE STUDY

Micro, Small and Medium Enterprises (SMEs) are one of the backbones of the national economy. The role of this SMEs are, First, the number is large and covers every economic sector, so it plays an important role in the growth and development of the Indonesian economy. Sidoarjo Regency is one of the most productive cities / regencies in East Java (Kompas, 2016). Second, SMEs have a large potential in absorbing labor, supported by the increasing number of SMEs in Indonesia by 2% annually, and the number of workers absorbed by SMEs every year also increases by 4%, so that SMEs has contribute to reducing unemployment in Indonesia. Third, SMEs make a large contribution to national income (Anwar, 2013).

In the 2014 World Economic Forum Competitiveness Report, 11% of SMEs stated that access to finance had the most severe constraints. Approximately 35.10% of SMEs stated capital difficulties, followed by market certainty of 25.9% and difficulties in raw materials 15.4% (Noer, 2005). In such conditions, this group will be very difficult to get out of the problem of access to finance unless there is intervention from other parties. Saudin (2008) said that interventions to break this chain of problems can be done if there is a strong commitment from the government and the community through credit. This shows that most SME players have weaknesses in operating, especially with regard to ownership of access and information and lack of access to capital (CNN, 2016).

SMEs still face financial difficulties (Schwab, 2015), because the majority of SMEs in Indonesia is still an Informal business, and have not registered their businesses yet, so they don't have legal entities. This has the potential to be a barrier to cooperation between large companies and SMEs (both as producers, suppliers and service providers). From the aspect of financing, informal SMEs will have limited access to financing institutions, one of which relates to requirements determined by formal credit service providers (Nkundabanyanga, Kasozi, Nalukenge, and Tauringana, 2014). In the 2013, Central Bureau Statistics survey, 28% of SMEs report access to finance as a major obstacle (International Financial Corporation, 2016).

Based on data from the Financial Services Authority (OJK) as of March 2016, the portion of credit received by SMEs was Rp. 738 trillion (18.45%) compared to the total loans channeled by banks worth Rp. 4,000 trillion. This means that the portion of credit received by SME is much smaller when compared to the credit received by Koporasi which is 81.55%.

Actually the Government has also sought to increase financing for SMEs, through expanding SME financing facilities in Indonesia with the People's Business Credit (KUR) program, but this has not been fully realized. Even as of May 2016, KUR distribution was only Rp. 39.2 trillion of the total target of Rp. 120 trillion (MetroTVNews, 2016).

In 2016, the Office of Cooperatives and Micro Enterprises in Sidoarjo Regency distributed loans to microbusinesses and cooperatives in the amount of Rp. 8.7 billion, but the credit funds are only able to be absorbed by SME in the amount of Rp. 6 billion. Unused funds for Rp. 2.6 billion must be included in the Current Over Budget Financing (SILPA) 2017. The causes of non-absorbed credit funds such as credit applications submitted are considered inappropriate, for example, because SMEs do not have collateral, insufficient collateral, bad loans in other banks or business activities carried out are not the

same as those reported (Bhirawa, 2017). This causes not all existing SMEs able to get the distribution of credit funds.

LITERATURE REVIEW

Microfinance Institutions

Under Indonesian Law No. 1 of 2013, microfinance institutions (MFIs) are financial institutions specifically established to provide business development services and community empowerment, both through loans and financing in micro businesses to the community, savings management, and the provision of business development consulting services that are not solely looking for profit. In Indonesia, microfinance institutions (MFIs) can be classified into three types, namely:

- a. Formal microfinance institutions are financial institutions whose existence has a legal umbrella in accordance with the provisions stipulated in the Indonesian Law No. 1 of 2013 concerning micro credit institutions. Financial institutions included in this type are Commercial Banks, Rural Banks (BPR), Pegadaian, Savings and Loan Cooperatives (KSP), and Savings and Loans Units (USP).
- b. Semi-formal microfinance institutions are financial institutions whose existence is based on the Governor's Decree (SK). Financial institutions included in this type are Rural Credit Institutions (LPD), District Credit Agencies (BKK), Credit for the Small People (KURK), and Rural Credit Barn (LKP).
- c. Non-formal microfinance institutions are financial institutions whose existence is not based on the legal umbrella or governor's decree, but on the initiative of the community itself. Financial institutions that belong to this type are moneylenders and rotating saving club (or be called "arisan").

Credit Function

Basically the credit function is a service to the community in meeting their needs to increase their business. The people here are individuals, entrepreneurs, institutions, and business entities that need funds. The detailed credit functions are as follows (Ismail, 2013: 95):

- 1) Credit can increase the flow of exchange of goods and services
- 2) The Credit provides the tools used to utilize idle funds
- 3) Credit can create a new payment instrument
- 4) Credit as a price control tool

5) Credit can activate and increase existing economic benefits.

Credit Benefit

According to Ismail (2013: 97), credit activities can provide benefits including the following:

- 1) Credit benefits for banks (Creditors), where the creditor will obtain additional income in the form of interest on loans and also by granting credit, the creditor (bank) can introduce other banking products or services to the debtor.
- 2) Credit benefits for the debtor, namely the debtor can obtain funds so that the debtor can expand and develop the business to advance further.

Basic Principles of Credit

According to Ismail (2013: 113), in order to be able to run credit activities smoothly, credit providers apply the basic principles of credit provision which include the following principles:

- 1) Principle 5 C, includes:
 - a. Character describes the character and personality of prospective borrowers. Credit provider institutions need to analyze the character of prospective borrowers with the aim of knowing that prospective borrowers have a desire to fulfill the obligation to pay their loans until they are paid off.
 - b. Capacity, intended to determine the ability of prospective borrowers to fulfill their obligations according to the credit period. Credit providers need to know with certainty the ability of prospective borrowers to fulfill their obligations if the credit provider institution provides credit.
 - c. Capital is the amount of capital held by prospective borrowers or the number of funds that will be included in the project financed by prospective borrowers. The greater the capital owned and included by prospective borrowers in the object of financing, the more convincing the credit provider institution will be the seriousness of prospective borrowers in applying for credit.
 - d. Collateral, is a collateral or collateral provided by a prospective debtor for the loan submitted.
 - e. The condition of the Economy is an analysis of economic conditions. Credit institutions need to consider the business sector of debtor candidates linked to economic conditions, whether these economic conditions will affect the business of prospective borrowers in the future.

2) Principle 5 P

- a. Party (Group), namely credit provider institutions will conduct an assessment of several groups consisting of groups that are appropriate to the character, capacity, and capital in making credit decisions.
- b. Purpose, more focused on the purpose of using credit proposed by prospective borrowers. Credit providers will see and analyze the objectives of the credit by linking it to several other social aspects.
- c. Payment, related to the borrower's ability to repay his loan.
- d. Profitability (Ability of the Company to Obtain Profit), related to the benefits that are obtained by both the debtor and the credit provider institution with the existence of the loan.
- e. Protection is a protection effort carried out by credit provider institutions in order to be on guard in case the prospective debtor cannot fulfill his obligations.

3) Principle 3 R

- a. Returns are defined as the results of the business that will be achieved by the debtor and the results of operations that will be achieved by the bank with the provision of these loans.
- b. Repayment is defined as the business capability of prospective debtors to repay credit that has been enjoyed. Credit provider institutions need to analyze the ability of prospective borrowers to manage their business. This can be observed from the ability of prospective debtor companies in creating profits.
- c. Risk Bearing Ability is the ability of a prospective debtor to risk if there is a failure in his business. One of the considerations to believe that prospective borrowers will be able to face the risk of uncertainty, namely by looking at the capital structure. The greater the capital possessed by prospective borrowers, the greater the ability of prospective borrowers to cover the risk of failure of their business.

Credit Access

Development theory emphasizes the importance of access to finance in addressing income inequality and achieving a country's economic growth (Nkundabanyanga et al., 2014). Access to credit also has an important role to play in the growth of SME development (Nkuah, Paul, & Kala, 2013). The availability of credit from formal institutions is very useful for SMEs as a safe and sustainable funding source (Oktavianti et al., 2017).

Formal credit access refers to the absence of constraints related to administrative costs or procedures for formal credit providers that are felt by SMEs when applying for credit. However, in reality, many SMEs in developing countries cannot access credit easily. As a result, most SMEs use informal financial institutions such as savings and loan companies, traditional lending institutions, friends and relatives (Nkuah et al., 2013). Therefore, in an effort to improve access to formal credit by SMEs, most commercial banks have recently entered SMEs into their portfolios through micro-loan schemes (Kakuru, 2008). The dimensions used in explaining the variables of formal credit access are the frequency of SMEs in accessing formal credit from the financial institution and the nominal credit that is successfully borrowed by SMEs (Oktavianti et al., 2017).

METHODOLOGY

Research design

This research is in the form of descriptive research.

Population

The population of this research is the owners of Small and Medium Enterprises (SME) in Sidoarjo, recorded approximately 171,264 business units in 2015 (BPS, 2016).

Sample

The sampling technique used is a non-probability sampling technique. While to get a sample, purposive sampling technique was used. The sample used was 100 respondents (Ghozali, 2013). The sample of this study were the owners of Micro, Medium and Small Enterprises (SME) in the Sidoarjo area which was devoted to 6 sub-districts namely Waru, Gedangan, Candi, Buduran, Tulangan, and Tanggulangin. The division of the number of respondents by sub-district was seen from the number of SMEs that were still active in the sub-district. The following is the distribution of the number of respondents in each sub-district: Waru (24 SMEs), Gedangan (7 SMEs), Candi (5 SMEs), Buduran (10 SMEs), Tulangan (5 SMEs), and Tanggulangin (49 SMEs). In addition, the owners of SMEs in each sub-district to be able to become a sample must fulfill several conditions, including 1) Owners of SMEs residing in the Sidoarjo area and 2) Ever accessing credit at least 1 time

Data collection

The source of this research data is primary data. Data collection techniques using questionnaires to the owners of SMEs in Sidoarjo. The distribution of questionnaires was conducted from 1 April - 30 April 2018. Questionnaires were distributed directly (offline) and distributed online. The distribution of offline questionnaires is done by going to the place of business or home of the SME owner while distributing questionnaires online is done by sending questionnaires to SME owners through the WhatsApp application. Total questionnaires distributed offline were 85 questionnaires while online questionnaires totaled 15 and all questionnaires met the requirements in the study so that the total questionnaires that could be processed amounted to 100 questionnaires.

Operational Variable

In this study, formal credit access variables were measured using 2 dimensions, namely the frequency of accessing formal credit and the amount of credit received referring to Oktavianti et al., (2017) as follows:

- a. The Frequency of Accessing Formal Credit is the intensity or number of times the SMEs accesses formal credit. This dimension can be measured by indicators including:
 - 1) Ease of obtaining credit from credit providers
 - 2) Frequency to accesses credit to help business growth
 - 3) Availability of information on SME credit
 - 4) The flexibility of SMEs in accessing credit
 - 5) Credit procedures affect the decision of SMEs to access credit
 - 6) Claims for guarantees limit credit applications.
- b. Amount of Credit Received, is a comparison between the amount of credit submitted and the amount of credit received. Dimensions of the amount of credit received can be measured by indicators including:
 - 1) Suitability of credit fulfillment from credit providers with the amount needed by SMEs
 - 2) Relationships between businesses and formal credit providers affect credit
 - 3) Increasing the amount of credit

Research Instruments and Measurement Scales

Research instruments are tools used to measure the phenomena being observed (Sugiyono, 2011). This study uses a structured questionnaire or questionnaire, in which the statement in this study uses a closed statement, then, the answer to the statement has been provided in the questionnaire. The scale used in this study is a Likert Scale because this scale is a scale that is often used in the preparation of questionnaires. Likert scale is a scale that contains five levels of preference (Ghozali, 2016: 4), with response 1 = Strongly disagree, and 5 = Strongly agree

Descriptive analysis of measuring Likert Scale to measure variables in this study has 5 categories given a score of 1 to 5. However, the score has a different range of values between variables. In the access credit variable there are 5 ranges of values using a class interval formula that produces a range or class interval of 0.8, with the category of answers as follows:

Table 1. Categories for Formal Credit Access Variables

Interval	Category
1,00 – 1,80	Very not easy
1,81 – 2,60	Not Easy
2,61 – 3,40	Easy enough
3,41 – 4,20	Easy
4,21 – 5,00	Very Easy

Data Reliability Test

Data reliability test was carried out using reliability and validity tests. Reliability Test was conducted to see whether the questionnaire statement was an indicator of the variable or construct, tested using Cronbach's Alpha (α) and said to be reliable if Cronbach's Alpha > 0.70 (Ghozali, 2016: 48). The results of the data analysis showed that the Cronbach's Alpha value of the formal credit access variable was 0.745, so the data passed the reliability test

Validity test is used to measure whether a questionnaire is valid or not (Ghozali, 2016: 52). Validity test uses confirmatory factor analysis (CFA) test, with the condition that the value of the > 0.5 variable loading factor is said to satisfy the convergent validity. The result of data analysis shows that all indicators are valid because the loading factor is > 0.5.

RESULT AND DISCUSSION

Characteristics of respondents based on will be seen based on demographics including age, gender, level of education, type of business, the scale of business, frequency of accessing formal credit, and amount of credit received. Respondents of this study are SME owners. This is because every business decision making such as business finance is handled by the SME owner itself so that the SME's owner is very familiar with the business conditions.

The majority of respondents in this study were 41 to 50 years old (38%). Respondents at least 20 to 30 years old were only 14%, respondents from 31 to 40 years amounted to 32%, and the remaining 16% of respondents were over 50 years of age. Based on gender, male respondents amounted to 66%, while female respondents as much as 34%. This shows that the majority of SMEs in Sidoarjo are owned or managed by a man. The majority of respondents are also high school graduates, namely 44%, graduate graduates as much as 29%, junior high school graduates amounting to 9%, elementary school graduates as much as 5%, then the least is Diploma graduates who only number 3%. Based on the type of business, it is known that as many as 77% of SMEs are manufacturing businesses. While 20% of SMEs have a type of trading business, and 3% of SMEs have a type of service business. The majority of respondents to this study have micro-scale businesses of 81%. While respondents who have a small business scale of 15% and 4% of other respondents have a medium-scale business.

The majority of respondents to this study access formal credit 1-2 times during business operations of 59%. Respondents who have accessed credit 3-4 times are 32% and who have accessed credit 5-9 times 8%. While respondents who access credit 10 times or more are only 1%. This shows that respondents still have not utilized credit access optimally.

Based on the amount of credit obtained, respondents who get a credit amount of Rp. 5,000,000 in one loan which is 38%. Respondents get a credit of Rp. 5,000,000 - Rp. 19,999,999 as much as 15% and who gets credit between Rp. 20,000,000 - Rp. 39,999,999 as much as 8%. Whereas the rest get credit amount between Rp. 40,000,000 - Rp. 74,999,999 as much as 7% and the amount of credit is more than Rp. 75,000,000 as much as 32%.

Tabel 2. Description of respondent's Respond of Formal Credit Access Variables

Indikator	1	2	3	4	5	Mean Indikator	Standar Deviation
	STS	TS	CS	S	SS		
1. Ease of obtaining credit from credit providers	3	13	21	43	20	3,64	1,040
2. Frequency of accessing credit helps business growth	0	2	9	40	49	4,36	0,732
3. Suitability of credit fulfillment from credit provider institutions with the required amount	1	13	25	47	14	3,60	0,921
4. Availability of information regarding SME credit	1	9	32	48	10	3,57	0,832
5. Flexibility of SMEs in accessing credit	6	11	37	35	11	3,34	1,017
6. Credit procedures affect the decision of SMEs to access credit	0	18	10	41	31	3,85	1,058
7. Claims for guarantees limit credit applications	3	13	17	35	32	3,80	1,119
8. The relationship between business and credit provider institutions is important in credit	2	1	9	45	43	4,26	0,815
9. Increasing the amount of credit	9	23	34	26	8	3,01	1,087
Total Mean Variabel						3,71	

Source: Output SPSS

Based on the descriptive analysis in Table 2 it is known that the average value of respondents' answers in total for the formal credit access variable is 3.71 which is categorized as "easy" (based on formal credit access classifier in table 1). Based on these results, in general, respondents are considered that applying a formal credit to a formal credit provider was quite easy for SMEs..

The indicator that shows the lowest indicator mean is the item about increasing the number of credits, 3.01, which is categorized quite easily. Indeed, not all SMEs have the experience of accessing credit easily, especially to increase the credit ceiling. The majority of respondents who have a Microbusiness scale (as much as 81%) still have to try to show good performance so that the credit provider from financial institutions are willing to provide credit assistance to these SMEs. Asiedu et al., (2013) said that several other obstacles identified were among SMEs and the formal credit market in Nigeria and other Sub-Saharan African countries including among others: poor credit penetration, collateral issues, complicated application procedures, asymmetrical information. Only half of the respondents, around 59% of whom can only access formal credit for 1-2 times, while those who can access formal credit more than 10 times are only 1%. This shows a considerable gap between SMEs who can access credit 1-2 times with more than 10 times. This means that SME players often access

credit at formal credit providers, but not all SMEs always experience an increase in terms of credit for their businesses.

Indicators that show the highest mean indicators are shown by the item regarding the frequency of accessing credit which helps business growth, which is 4.36 (very easy category). This means that respondents agree that credit can help their efforts to become more developed. These findings also show that the frequency of credit obtained can also help SMEs to increase business growth. This is in accordance with the existing facts, that at the present time the availability of credit for micro businesses has increased, such as the KUR program (People's Business Credit) conducted by the government and OJK. This certainly can make it easier for SMEs to access credit.

CONCLUSION

Data descriptions regarding access to formal credit for SMEs in Sidoarjo based on the average respondent's total answers included in the easy category. This means that in general respondents consider that applying for credit at formal credit providers is considered quite easy for SMEs in Sidoarjo. Not all SMEs have the experience of accessing credit easily, especially to increase the credit ceiling. There are still many SMEs that the majority have a Microbusiness scale, so there are still many who still cannot access credit easily.

There is a large gap between SME that can access credit 1-2 times with SMEs that can access credit more than 10 times. This means that SMEs actually have access to formal credit, but not all SMEs have the same opportunity to be able to access credit many times.

The frequency of accessing credit is considered to be able to help business growth. This is in accordance with the existing facts, that at this time the availability of credit for micro businesses has increased, such as the existence of the KUR (People's Business Credit) program carried out by the government and OJK. This certainly can make it easier for SMEs to access credit.

This research can be used by formal credit providers as an illustration of the perception of SMEs on how easily SME owners can access formal credit. In addition, this study can also be used as input for SME owners to further enhance their knowledge of finance and access to credit, and can be used as consideration for the Sidoarjo Cooperative Office to assess the benchmark for achieving the KUR program for SMEs.

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