# Financial Accessibility of Small and Medium Enterpraise (SMEs) in Surakarta City

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## Abstract

*Small and Medium Enterprise (SMEs) is priority economics sector until 65 percent in Indonesia. It had been priorities focus of government policy to financial access in banking helped SMEs. The research is aim to analyze the influence of SMEs Characteristic, Financial Literacy, and Lending Term toward Financial Accessibility SMEs in Surakarta city. The research had sample from SMEs registered in SMEs government in Surakarta city is 100 sample. Sample of the research with proportionate stratified random sampling technique. Methodology in this research is regression. The Result of this research state that the SMEs Characteristics, Financial Literacy, and Lending term positif toward Financial Accessibility*

## INTRODUCTION

The Small and Medium Enterprises (SMEs) sector have contributed significantly to the economic growth in Indonesian country of 65 percent. The manufacturing sector firms is one of the main SMEs sectors with the third largest percentage of selected the banks to provide financing (Financial Service Authority, 2019). Based on the results of the Bank Indonesia Survey, it was found that SMEs capital originating from own capital amounted to 82.7 percent, capital from other sources 17.3 percent of which 13 percent of them came from the banking industry. According to Myers (1984) in the Pecking Order of Hierarchy Theory states that the decision on the capital structure of the business which is also supported by capital from Outside the Company. External capital is also needed in the development of SMEs. According to the Banking profile report in March 2019 shows that distribution of funds to the SMEs sector. Trade is the main business sectors

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are selected Bank in disbursing financing is 972.70 trillion in March 2019. The largest portion is business sectors, 18.38 percent followed by the Manufacturing industry amounted to 16.42 percent. However, the last three years from 2017 to 2019 the contribution of manufacturing sector to economic growth in Indonesia shown a decline.

In Surakarta, Small and Medium Enterprises (SMEs) show growth. Based on data of Economic Census in 2018, entrepreneurs in Surakarta there are 82,377 firms that increased 10.9 percent of the number of entrepreneurs on the results of the Economic Census in 2018 of 74,826 firms (Surakarta Bureau of Statistics, 2018). However, based on the data from the Ministry of Cooperatives and SMEs in the Surakarta, SMEs assisted by the ministry in 2018 is less than 5% or 2.978 SMEs. Surakarta city is a potential area for conducting research related to  Small and Medium Enterprises (SMEs).The growth of SMEs in accordance with the vision of Surakarta City in the Regional Regulation No. 10 of 2001. Surakarta's vision is to realize the city of Surakarta as a cultural city that relies on the potential of trade, services, education, tourism and sports.

Banking institutions provide capital from outside the company which is expected to help overcome the limitations of SMEs capital constrained requirements as the recipient of financing. Business characteristics are one of the factors based on Wangmo's research (2005) is one of the factors that has a major influence on the financial access of business actors in the country of Bhutan. Business characteristics are based on the number of employees divided into micro, small and medium categories (BI & LPPI, 2015). Based on data from the Result of Establishment Listing of Economic Census of Central Java Province, the majority of SMEs in Central Java have less than 5 employees, namely 93.99 percent. So, included in the category of micro-scale businesses.

The next obstacle to access to bank capital is financial literacy. Financial literacy in the literature is related to the ability of entrepreneurs to record the financial condition of businesses. Banks see the track record of financial statements made by entrepreneurs, so it is important to also pay attention (Oktavianti et al., 2017; Wangmo, 2015; Allee & Yohn, 2009). Lusimbo and Muturi (2016) used two dimensions in measuring the level of financial literacy of business actors, namely debt management literacy and financial recording literacy. In the case of financial records based on the Result of Establishment Listing of Economic Census of Central Java Province, the majority of SMEs in the city of Surakarta do not have financial record reports. Of the total 79,074 SMEs, only 9.8 percent or 7,779 SMEs have financial statements. The remaining 90.2 percent or 71,295 SMEs do not have financial reports (Central Statistics Agency, 2016). The 2016 National Financial Services Authority Financial Literacy and Inclusion Survey showed an imbalance in development between financial literacy and financial inclusion in Indonesia. The level of financial literacy in Indonesia in 2016 was 29.66 percent.

In addition to business characteristics and financial literacy, another obstacle in the 2010 Asian Development Bank survey in Indonesia stated that the main inhibiting factor for SMEs accessing loans from banks was the guarantee factor. The survey shows that 60 percent of business operators respondents objected to the collateral required in accessing loans. This condition is in accordance with the statement of Nkundabanyanga, Kasozi, Nalukenge & Tauringana (2014) which states that most SMEs cannot fulfill the requirements in borrowing related to the availability of adequate collateral. Access to credit according to Chebet (2016) is measured by four components, namely the number of loans, the frequency of loans, the availability of loan institutions and the duration of debt repayments. The result is that the majority of SMEs owners do not have collateral and the interest rate variable of SMEs owners object to the interest rate being charged.

Based on previous research above, researchers plan to conduct further research on financial access. As far as observations from research researchers discussing SMEs financial access are mostly done in other countries. Research in Indonesia looks a lot on the side of lending institutions and is limited to research on SMEs actors as the side of the funded party. This research will be conducted on objects of SMEs in the city of Surakarta. The study combines several previous research Wellalage, et al (2019); Mulandi and Kisaka (2017); Lusimbo and Muturi (2016) with variables that show influential tendencies . The variables consist of business characteristics, financial literacy and loan requirements for financial access to banking financial institutions.

## LITERATURE REVIEW
### SMEs Characteristics and Financial Accessibility

Enterprise characteristics according to Muhammad (2005) are part of the 5C principle, namely Condition. Assessments relating to the customer's business situation are included in the prospect category or not. Enterprise characteristics are used as a measure of the feasibility of a business obtaining banking capital. Myers (1984) in the Pecking Order of Hierarchy Theory states that the decision on the capital structure of the business which is also supported by capital from Outside the Company.

Enterprise characteristics provide a general description of business conditions. Characteristics of Enterprise according to Wangmo (2015) can be described in two aspects, namely age and size of business. According to Enterprise characteristics relate to the level of income flow and business operations. The size of the business can be explained by the number of employees or the amount of the asset. Larger businesses with greater resources can diversify and minimize failures. The age of a business illustrates the length of time a business exists and survives in uncertain economic conditions. The longer the business has proved its existence. Businesses with a young age are more at risk of failure than older businesses. So

that young age is more difficult to access loans. conversely, the older the business age the greater the level of financial access.

The research model built on research (Nkuah, Tanyeh, & Gaeten (2013); Kira (2013); Wangmo (2015); Mulandi & Kisaka (2017)) which shows a positive relationship between business characteristics and financial access. Based on the results of the research above, it can be concluded that there is positive influence between the SMEs characteristics with Financial Accessibility.

**H1: SMEs Characteristics has a Positive Effect on Financial Accessibility**

**Financial Literacy and Financial Accessibility**

Financial literacy according to Hidajat (2015) measures financial knowledge, financial skills, and financial practice abilities. Financial literacy is important for businesses to plan their finances and external financial access. Wangmo (2015) measures financial literacy by financial reporting records provided by SMEs. In addition to the use of financial statements (Lusimbo & Muturi, 2015) also considers the debt management literacy. According to Chen & Volpe (1998) in Oktavianti, et al (2017) states that, a group of people who have high financial knowledge tend to manage financial patterns and make financial decisions based on financial records carried out. Thus, the higher the financial literacy ability that is owned will increase financial access.

The results of research by Nkundabanyanga, K, et al (2014), Wangmo (2015), Lusimbo and Muturi (2016) show relationship between financial literacy and financial access. Based on the results of the research above, it can be concluded that there is positive influence between financial literacy and financial access.

**H2: Financial Literacy has a Positive Effect on Financial Accessibility**

**Lending Term and Financial Accessibility**

Lending terms are the standards set by the lending institution that must be met by the debitor. The lending conditions are used to determine the debitor's ability to repay loans. Guarantees according to Muhammad (2005) are part of the 5C principle, namely Collateral. The owner gives his guarantee to the bank. Owners guarantee a requirement that restricts SMEs access loans. According Nkundabanyanga, et al (2014), the repayment period has a negative effect on financial access. This means that SMEs feel the payment period is not flexible then they tend not to financial access. The research of Susan (2012) and Wangmo (2015) stated that lending term have a positive effect on financial access. Its means that the easier lending terms set by the lending institutions will further increase SMEs financial access.

**H3: Lending Terms has a Positive Effect on Financial Accessibility**
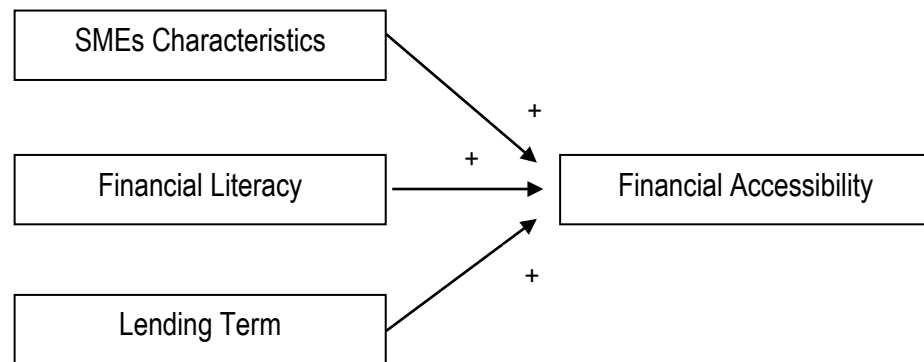
Figure 1. The Reserach Model

The research model built on research (Nkuah, Tanyeh, & Gaeten (2013); Kira (2013); Wangmo (2015); Mulandi & Kisaka (2017)) which shows a positive relationship between business characteristics and financial access. Financial literacy is positively related to financial access (Nkundabanyanga, K, et al (2014); Wangmo (2015); Lusimbo and Muturi (2016)). And loan requirement variables are positively related to financial access (Susan (2012); Wangmo (2015)).

## 3.  METHODOLGY

The population in this study amounted to 2,978 SMEs, SMEs who are members of the fostered registered at Dinas Koperasi dan UMKM in Surakarta city. The research sample was taken using proportionate stratified random sampling technique. This technique divides the population based on a map of the area which is divided into 5 subdistricts namely Laweyan, Serengan, Kliwon Market, Jebres and Banjarsari consisting of fifty one wards. This technique was chosen to limit the number of samples spread by determining the proportions of each specified category. Determination of the number of samples is done using the Slovin formula and it is known that from a total population of 2,978, a sample of 96.75 is rounded up to 100 SMEs samples.

The research data were obtained from Surakarta City SMEs through interview and questionnaire techniques. The questionnaire is divided into three parts including Part I containing the profile information of the respondents. Part II contains SMEs Characteristics. And Finally section III contains question items that illustrate financial literacy, lending term and financial access.

The dependent variable of this study is financial access as measured by the frequency of loans and the number of loans. Meanwhile, the independent variables of this study are business characteristics and financial literacy. The characteristics of SMEs are measured by

the size of the business and the age of the business. Financial literacy is measured by debt management and financial records. Lending Term is measured by guarantee and profit. The data analysis technique used consists of descriptive analysis, cross tabulation, instrument testing through validity and reliability tests, classic assumption tests, model accuracy tests and regression tests using the SPSS 23 program.

## 4. DATA ANALYSIS

### Validity and Reliability Test

validity and reliability for conformance testing of research instruments in achieving the objectives of the study. Based on the results of the reliability and validity test shows that the research data is valid and reliable with an alpha (α) value greater than 0.6.

### Classic Assumption Test

### Normality test

Normality test to determine the regression model with independent and dependent variables both have normal distribution or not. The test is carried out using the Zskewness value on all variables smaller than Ztable which means the data is normally distributed. Table 2. Result of Normality test.

Table 1
Result of Normality test

| | | Akses Keuangan | Literasi Keuangan | PersyaratanPinjaman | Karakteristik Usaha |
|---|---|---|---|---|---|
| N | Valid | 100 | 100 | 100 | 100 |
| | Missing | 0 | 0 | 0 | 0 |
| Skewness | | -1,105 | -,898 | -1,967 | -,438 |
| Std. Error of Skewness | | ,241 | ,241 | ,241 | ,241 |
| Kurtosis | | ,705 | ,748 | 3,787 | -,283 |
| Std. Error of Kurtosis | | ,478 | ,478 | ,478 | ,478 |

Sources : data processed, 2019

### Multicollinearity Test

Multicollinearity test shows that the tolerance value on all independent variables is greater than 0.1 and the VIF value for all independent variables is less than 10. Tests show there are no multicollinearity problems between independent variables. The following table 2 is the result of multicollinearity test

Table 2

Result of Multicollinearity test

| Model | Collinearity Statistics | |
| --- | --- | --- |
| | Tolerance | VIF |
| 1 (Constant) | | |
| SMEsCharacteristics | ,977 | 1,024 |
| FinancialLiteracy | ,690 | 1,450 |
| LendingTerm | ,676 | 1,479 |

Sources : data processed, 2019

**Heteroscedasticity Test**

Heteroscedasticity test using Glejser showed p-value greater than 0.05 indicating heteroscedasticity did not occur. The following table is glejser test results .

Tabel 3

Result of Glejser

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| --- | --- | --- | --- | --- | --- |
| | B | Std. Error | Beta | | |
| 1 (Constant) | 5,831 | 2,241 | | 2,602 | ,011 |
| SMEsCharacteristics | -,293 | ,315 | -,095 | -,928 | ,355 |
| FinancialLiteracy | -,070 | ,048 | -,183 | -1,454 | ,149 |
| LendingTerm | ,029 | ,107 | ,035 | ,273 | ,786 |

a. Dependent Variable: RES2

Sources : data processed, 2019

**F-Test and T-Test**

Based on table 5, F-test results indicate that the variables of SMEs characteristics, financial literacy and lending term simultaneously affect financial access to SMEs in Surakarta city. Adjusted R Square result 36,7 percent, it means independent variable that is SMEs characteristics, financial literacy and lending terms have 36,7 percent influence on financial accessibility.

Based on table 6, T-test show that SMEs Characteristics of Financial Access there is an influence between business characteristics and financial access. Financial Literacy on Financial Access shows there is an influence between financial literacy and financial access. Lending term for Financial Access indicate there is an influence of lending term on financial access.

Tabel 4

Regression Equation Model Test Results

| Model | | Unstandardized Coefficients | | Standardized Coefficients |
|---|---|---|---|---|
| | | B | Std. Error | Beta |
| 1 | (Constant) | 10,856 | 3,561 | |
| | SMEsCharacteristics | 1,060 | ,467 | .183 |
| | FinancialLiteracy | ,178 | ,069 | ,250 |
| | LendingTerm | ,575 | ,142 | ,393 |

Sources : data processed, 2019

Table 5

F-Test Result

| Model | | Df | F | Sig. |
|---|---|---|---|---|
| | Regression | 3 | 20,111 | ,000[b] |
| 1 | Residual | 96 | | |
| | Total | 99 | | |

Source: data processed, 2019

Table 6

T- Test result

| Model | | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|---|
| | | B | Std. Error | | |
| | (Constant) | 10,856 | 3,561 | 3,048 | ,003 |
| 1 | SMEsCharacteristics | 1,060 | ,467 | 2,596 | ,011 |
| | FinancialLiteracy | ,178 | ,069 | 4,043 | ,000 |
| | LendingTerm | ,575 | ,142 | 2,267 | ,026 |

Source: data processed, 2019

Table 7

Summary of Results of the Research Hypothesis

| | B | Sig. | Slope | Hipotesis |
|---|---|---|---|---|
| SMEs Characteristics | 1,060 | 0,011** | + | Accepted |
| Financial Literacy | 0,178 | 0,000* | + | Accepted |
| Lending Term | 0,575 | 0,026** | + | Accepted |

Description: * sign shows signification level * 1%, ** 5%

a.      SMEs Characteristics and Financial Accessibility

Characteristics of Small and Medium Enterprises (SMEs) in Surakarta shows the results of a positive influence to financial accessibility. Or in other words, the better business conditions in the size and age influenced the increase in financial accessibility SMEs. Based on the coefficient value of the regression equation the SMEs characteristics become the main contributor to improved financial accessibility. The results of this study supported the results of research Nkuah, Tanyeh, & Gaeten (2013); Kira (2013); Wangmo (2015); Mulandi & Kisaka (2017) indicating that SMEs characteristics have a positive effect financial accessibility.

The longer the age of the business, the more to prove its existence. According to Bougheas, Mizen, & Yalcin (2006) businesses with a young age of less than five years are more prone to failure than older businesses. This has an impact on the older age of the business, the greater the level of financial access. SMEs in Surakarta, the majority of micro businesses is 99%. This indicates that financial access is much in demand by small-scale businesses for business development.

The duration of the business illustrates the length of the business and is able to survive in economic conditions that are often uncertain. An examination of the age of the majority of respondents business has operated for more than 10 years. The long age of business is a positive signal for SMEs in gaining access to banking sector loans.

b.      Financial Literacy and Financial Accessibility

Financial literacy show the results of a positive influence to financial accessibility. Or in other words the increase in financial literacy by SMEs owners leads to an increase in SMEs financial access to banking institutions. The results of this study are supported by the results of Mutai (2015), Wangmo (2015) and Oktavianti, et al (2017) studies which indicate that financial literacy positively influences financial accessibility.

According to Lusimbo and Muturi (2015), SMEs must be able to obtain good debt and financial records that are useful in obtaining external capital. The improved financial literacy of SME owners will have an impact on their financial decisions in accessing loans from the banking sector. otherwise, the business sector with a limited level of financial literacy does not make effective financial decisions limiting the desire in accessing finance from outsiders. The highest value of financial access that SMEs assume is that external loans will increase business growth. It shows that SMEs are well aware of the importance of external capital in enhancing business growth.

c.        Lending Terms and Financial Accessibility

Lending t.erms show the results of a positive influence to financial accessibility. Or in other words, the more easily the loan terms set by the banking institutions will increase the access to finance of SMEs. The results of this study are supported by the results of Nkundabanyanga, K, et al (2014) study indicating that lending terms have a positively influences financial accessibility.

According to Zeller (1994), when SMEs feel the requirements imposed by the providers of formal credit is too complicated and can not be met then SMEs would look for other financial sources. However, if the conditions imposed by the lending institution are easy, the SMEs will confidently access credit at the lending institution.

The majority of respondents assume that business actors are able to meet the profit requirements, namely the interest / profit sharing charged by banking institutions and the respondent has the collateral required by banks to obtain a loan. The lending Terms determined by the institution are assessed in accordance with the ability of SMEs owners to fulfill the loan requirements.

## 5. CONCLUTION

a.   Based on the results of hypothesis testing on SMEs characteristics variable, SMEs characteristics have a positive effect on financial accessibility.

b.   Based on the result of hypothesis testing on financial literacy variable, financial literacy has positive effect on financial accessibility.

c.   Based on the result of hypothesis testing on lending terms variable, lending terms have positive effect on financial accessibility.

## 6. LIMITED AND FUTURE RESEARCH

This Research focused on members of SMEs assisted by Department of Co-operatives and SMEs Surakarta City who have access to financial Banking with broad distribution level limiting the number of respondents. Thus, for future research are suggested take a sample of general SMEs in a particular area. Furthermore, future research are suggested to conducted more specific research on SMEs with certain business sectors such as manufacturing, trading, etc.

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