



**INTERNATIONAL COLLABORATION RESEARCH GRANT**

**Determinants of Access to Financing in Rural Areas: A  
Comparative Study on Indonesian and Thailand Micro, Small  
and Medium Enterprises (MSMEs)**

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## EXECUTIVE SUMMARY

Micro, Small and Medium Enterprises (MSMEs) are predominant business actors in global economy. In terms of size alone, MSMEs have taken up 99% of the operating business in United States (Bloodgood et al., 2010), Europe (*European SMEs under Pressure* 2010) and Asia Pacific (*SME Market Access and Internationalization: Medium-term KPIs for the SMEWG Strategic Plan*, 2010). Despite the small business capitalization, MSMEs have snowball effect on a country's economy. Taking advantage of the large portion of MSMEs within an economy, their operations have eased unemployment rate, supported domestic product and naturally generated income. This research is aimed at studying and comparing several factors that influence access of SMEs in acquiring business loan both in Indonesia and Thailand. This research provides a comprehensive perspective whereby access to finance is seen from both financing supply (banks) and demand (SMEs). Previous studies were conducted from the supply side. Findings of this research would contribute to the microfinance policy in Indonesia. Locus of the research focused in two cities of Indonesia, which were Depok and Bogor as well as two other provinces in Thailand, Phetchaburi and PrachuapKhiri Khan Provinces. and Thailand. This research adapted mixed-method that combines or associates qualitative and quantitative methods. Questionnaires were used to collect data on SME's financing needs, preferences and issues. The questionnaire was distributed to 30 small entrepreneurs or managers in each area. Therefore, there were approximately 60 SMEs in Indonesia and Thailand. In-depth interviews were conducted on financial provider in Indonesia and Thailand to bring together information about financing scheme, product innovation, and requirement for SMEs and lending policy. Findings show that SMEs do not face issues in accessing financing from banks across all dimensions. This research explores trust as a value contributing to SMEs' access to financing and the role of social groups such as family and circle of friends. These factors are not considered in previous studies, but potentially obstruct SMEs' financing in Indonesia

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## CHAPTER 1 – INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are predominant business actors in global economy. In terms of size alone, MSMEs have taken up 99% of the operating business in United States (Bloodgood et al., 2010), Europe (*European SMEs under Pressure* 2010) and Asia Pacific (*SME Market Access and Internationalization: Medium-term KPIs for the SMEWG Strategic Plan*, 2010). Despite the small business capitalization, MSMEs have snowball effect on a country's economy. Taking advantage of the large portion of MSMEs within an economy, their operations have eased unemployment rate, supported domestic product and naturally generated income. However, MSMEs are also affected by the domestic market structure and power. In this context, MSMEs' growth in and contributions to developed economies differ from that of emerging economies. World Bank country survey (n.d, 2011) disclosed SMEs' growing contributions to GDP over periods of years across countries. This database shows an upward trend during the last 10 years (2002 to 2011) with the exception of 2009, which can be attributed to the effect of Global Financial Crisis. In this particular year, SMEs in most countries have experienced productivity slow down, with some developed countries such as United Kingdom, Finland, Australia, and Qatar, suffered more than 10% decrease of GDP contribution from small businesses. On the other hand, 37 out of 43 countries that have benefitted from increased SMEs contribution to GDP are categorically developing countries. This implies the significant role of SMEs in these emerging markets economy notwithstanding the global financial upheaval.

In south east asian region, SMEs' growth is included as one of the development pillars within Economic ASEAN Community (EAC). SMEs in this region are considered weak in terms of access to financing, technology and competitive market provision. In addition, they are lacking bargain of power compares to their big companies' counterpart, in particular when it relates to risk management strategy, cost efficiency and market diversification. The focus of the regional cooperation is to nurture economic development of its members through the development of SMEs. In order to improve SMEs' business performance, pro-SMEs policies should be put in place. The results from OECD research in 2014 show that there is a variation in policy to boost innovation and competitiveness within the region. The indicators used to measure policy index of ASEAN countries include institutional readiness, access to support. License and regulations to speed up start-ups, access to financing, technology and technology transfers, international market expansion, promotion and entrepreneurship education as well as an effective representation to SMEs' needs.

The high score of index reflects a good practice and performance of SMEs. Generally, the score for Singapore, Indonesia, Malaysia and Thailand are above the average score of other ASEAN countries such as Vietnam, Brunei Darussalam, Myanmar, Lao PDR and Cambodia (Table 1.1).

**Table 1.1 ASEAN Policy Index (selected countries)**

Rank	Country	Policy Index
1	Singapore	5.4
2	Malaysia	4.7
3	Indonesia	4.1
4	Thailand	4.1
5	Phillipine	3.8

Source: ASEAN SME Policy Index 2014: Towards Competitive and Innovative ASEAN SMEs, 2014.

To ASEAN countries, the biggest disparity exists on policy to support technology and technology transfer. This is due to the lack of strategic approach on the related policies, the asymmetric information to support innovation, limited standardized certification service, absence of technological support from universities and the lack of relationships between SMEs and business incubators and research laboratories. Access to financing becomes a strategic issue due to the weak system, collateral requirements that are too difficult to fulfil for SMEs and the lack of creditor protection system. Although a scheme to protect creditors exists, it has not fully functioned. The most important obstacle is legal framework that does not support variety of financing schemes.

In South East Asian region, MSMEs contribution is also significantly acknowledged (Group, 2014). Table 1.2 shows the comparative impact of small businesses upon the five ASEAN founding countries' economy. From the table, it can be seen that MSMEs have made up majority of Indonesian economy in comparison with other ASEAN countries. In addition, amongst the five countries, Indonesia shows the highest MSME's employment rate (97%). These small businesses are also labor-intensive in nature as implied by the equally high contribution to employment. Thailand presents similar characteristics as Indonesia, thus the two countries have comparable economy profile in regards to MSMEs.

**Table 1.2 Contribution of SMEs in Selected ASEAN Countries**

	Indonesia <sup>1</sup> (2011)	Thailand <sup>2</sup> (2011)	Malaysia <sup>3</sup> (2012)	Singapore <sup>4</sup> (2012)	Philippines <sup>5</sup> (2011)
SME contribution to total establishments	99.9%	99.8%	97.3%	99.4%	99.6%
SME contribution to GDP	58.0%	37.0%	32.7%	45.0%	36.0%
SME contribution to employment	97.2%	76.7%	57.4%	68.0%	61.0%

Source:

<sup>1,2,4,5</sup> ERIASME Research Working Group (ed.), *ASEAN SME Policy Index 2014: Towards Competitive and Innovative ASEAN SMEs*

<sup>3</sup> National SME Development Council, *SME Annual Report 2012-2013: Embracing Changes*

Development of MSMEs in Indonesia and Thailand has followed a different path. Although financial exclusion of MSMEs occurs in Indonesia and Thailand, the government of Thailand has responded to this urgent situation in a more systematic manner through various pro-MSME policies and financial system reform (Dejvitak, 2006). The government of Indonesia depends on commercial banks to meet MSMEs financing needs. This is realized through directives to allocate banks' loan portfolio to MSMEs financing (Hamada, 2003), however there is unclear evidence that this policy has been successful. The development of Co-operatives is also lagged despite the fact that they have maximum outreach potential to serve MSMEs at grassroots level. In contrast, the government of Thailand shares financing obligations to several Specialized Financial Institutions (SFIs), namely SME Development Bank, Bank of Agriculture and Agricultural Cooperatives, Government Savings Bank and Export-Import Bank. The distinction of responsibilities has led to more effective approach in fulfilling their target.

The difference between MSMEs in Indonesia and Thailand can be seen from their business resilience during financial crises. Indonesian economy was able to avoid the aftermath of global financial crises in 1998 and 2008 due to the economic viability of MSMEs (e.g. Mourougane, 2012). It was argued that MSMEs' self-reliance in financing is resulted in their agility towards the changing economic environment (Berry, Rodriguez, & Sandee, 2001). The fact that MSMEs are relatively alienated from financing provisions by microfinance institutions has proven to be an advantage and disadvantage at the same time. Whilst it contributes to the country's economic performance during peril times, it also obstructs MSMEs growth capability (Mourougane, 2012; Shinozaki, 2014). The main reason for low count of financing provisions to MSMEs can be traced back to MSMEs' informal and unsystematic governance of their business (Godau, Hiemann, & Jansen, 2004; Rudjito, 2003; Tambunan, 2008). In this regard, it is essential to understand factors that are affecting small businesses access to acquire financing as well as loan providers' financing schemes when assessing MSMEs' access to financing.

On the other hand, MSMEs in Thailand showed less resilience during 1998 financial crisis. When compared to large-scale businesses, there were more SMEs' suffered from scaling down their business and bankruptcy (Régnier, 2005). This might closely related to the business nature of these MSMEs. According to Régnier (2005), as many as 98% of the total operating business in Thailand is SMEs that are manufacturing companies. The downfall of US financial system which impact have reached Asian region has strikethis industry severely. The situation was worsened by the country's weak financial structure. Since then, Thai Government has managed to improve its economic infrastructure and monetary regime (Sussangkarn & Vichyanond, 2007). One of the main reform priorities is related to financing policies and practices, which entails a reformulation of SME definition (Brimble, Oldfield, & Monsakul, 2002). Taking into account the high non-performing loans (NPLs) of small businesses, the government regulated reformation of SME Bank. The shift in paradigm required the SME Bank to take on more active role and responsibilities toward empowerment of SMEs (Dejvitak, 2006). The fruit of these efforts can be seen from the small businesses' contribution to national economy as shown in Table 1. In this regard, it is essential to understand the transformation of

financing providers in Thailand that they are able to achieve their business goals and fulfill the social demand to promote SMEs business sustainability at the same time.

MSMEs in Indonesia and Thailand share the same significant role to respective economy. As the backbone of domestic market, the government has strategic interest to maintain the existence of these small businesses. One remaining issue that is constantly emerged throughout different period is access to credit and financing provision. Similar to other countries, financing providers in both countries are confronted with asymmetric information related to credit granting process (Berger, Klapper, & Udell, 2001; Dejvitak, 2006). MSMEs are deprived from receiving financing since lenders providers prefer to channel their funds to large businesses with more mature and well-established management of the business. Small companies present higher credit risk, higher transaction costs and provide lower return for lenders. This resulted in low access to financing for Indonesian MSMEs regardless of their creditworthiness (Johnston & Morduch, 2007, 2008). Specifically for Indonesia, evidence from previous studies showed the low access to finance obstructed MSMEs' capacity towards internationalization (Wengel & Rodriguez, 2006). Recent survey conducted by the Central Bank (Bank Indonesia) highlighted MSMEs' restricted access to finance caused by technical and non-technical issues (Departemen-Pengembangan, 2014). This low access to financing is indicated by the amount of new credit applications lodged by MSMEs as shown in Table 1.3. There is a declining trend in MSMEs' attempts to acquire financing from banks relative to their counterpart.

**Table 1.3 New Credit Applications (selected data)**

Types of Debtors	Periods				
	III-2013	IV-2013	I-2014	II-2014	III-2014
MSME (People' Credit-KUR)	34.5%	26.4%	27.5%	12.5%	8.6%
MSME (Non People' Credit-KUR)	61.7%	31.8%	-5.7%	35.8%	28.4%
Non MSMEs	51.8%	44.1%	7.7%	-1.2%	70.5%

Source:

<http://www.bi.go.id/id/publikasi/survei/perbankan/Documents/SP%20Triwulan%20III%202014.pdf>

Based on abovementioned description, this research is aimed at examining factors affecting MSMEs access to finance in rural areas in Indonesia and Thailand. In order to focus the research, two rural areas are selected for Indonesia (Depok and Bogor) and Thailand (Phetchaburi and PrachuapKhiri Khan Provinces). The factors are seen from both supply (MSMEs) and demand (financial institutions) perspectives. The significance of understanding these determinants comes in twofold. First, it would address the gap whereby academic research on access to finance specific to Indonesia and Thailand is not available. Upon the completion of this research, the findings should be utilized for policy making purposes to allow MSMEs development in general. Second, it would bridge the current gap between MSMEs and their

financing providers in Indonesia based on comparative study with Thailand. Findings from this research should provide insights on innovative ways to increase MSMEs' bankability as well as the appropriate microfinance institution for particular areas. Essentially, financial inclusion of MSMEs will stimulate local economy and community quality of life.

## CHAPTER 2 - LITERATURE REVIEW

### 2.1 Definitions of MSMEs

One of the problems in cross-sectional studies on MSMEs is the lack of conventions on the definition of MSMEs. Countries across the world use different measures to categorize micro, small and medium enterprises. Although number of employees and business volume turnover appear to be the most common features to define MSMEs, their use also differ from one country to another. This issue predominantly occurs in developing countries compared to developed countries. European countries that are members of European Unions, for example, are benefitted from a uniform definition (The new SME definition: User guide and model declaration, 2004). The clear definition allows straightforward policy and coordination amongst relevant stakeholders. In developing countries where MSMEs development is a collaborative program with source of financing relatively contributed by national and foreign donors, it is crucial to have a consistent definition to be used for policy and development purposes (Group, 2014).

In Indonesia, there are three definitions applied by government authorities. Table 2.1 shows that number of employees is the criteria used for statistical purpose. On the other hand, net assets (excluding land) and business turnover are used by the responsible ministry and the central government as formalized in Law Number 20 Year 2008 on Micro, Small and Medium Enterprises. In this research, we will use the definition as per Law Number 20 Year 2008 since this definition is the one employed by financial institutions in Indonesia.

**Table 2.1 Definitions of MSMEs according to different institutions**

Institution	Micro	Small	Medium
Bureau of Statistics	Not available	5 to 19 employees	20 to 99 employees
State Ministry of Cooperatives and SMEs	Not available	Net assets value of less than IDR 200 million (USD 15,888), AND less than IDR 1 trillion (USD 79,425) of annual sales	Net assets value between IDR 200 million (USD 15,888), AND IDR 10 trillion (USD 794,250)
The Government of Indonesia	Less than IDR 50 million (USD 3,972) of net assets, OR less than IDR 300 million (USD 23,830) of annual sales	Net assets value between IDR 50 million (USD 3,972) and IDR 500 million (USD 39,714), OR annual sales value between IDR 300 million (USD 23,830) and IDR 2.5 trillion (USD 198,564)	Net assets value between IDR 500 million (USD 39,714) and IDR 10 trillion (USD 794,250), OR annual sales value between IDR 2.5 trillion (USD 198,564) and IDR 50 trillion (USD 3,971,255)

Source: [www.bps.go.id](http://www.bps.go.id), [www.depkop.go.id](http://www.depkop.go.id), Law Number 20 Year 2008 on Micro, Small and Medium Enterprises.

Conversion rate used: USD 1 = IDR 12,589.06, rounded to the nearest dollar.

In Thailand, definitions of SMEs are provided in broader meaning compares to Indonesia ("The White Paper on SMEs on Thailand in 2011 and Trends in 2012," 2011).The criteria are determined based on the type of industry their business is operating. According to Office of Small and Medium Enterprises Promotion, SMEs in Thailand are defined according to number of employees and the size of their fixed assets excluding land. Table 3 shows that there are typically three categories of SMEs, namely that of Manufacturing and Services sectors, Wholesale sector and Retail sector. There is no specific category for micro business, although the term “micro” is used in informal documents.

**Table 2.2 Definitions of SMEs in Thailand**

Type	Number of employees		Fixed Assets (THB million)	
	Small	Medium	Small	Medium
Manufacturing	< 50	51 - 200	< 50	50 < THB million < 200
Services	< 50	51 - 200	< 50	50 < THB million < 200
Wholesale	< 25	26 - 50	< 50	50 < THB million < 100
Retail	< 15	16 - 30	< 30	30 < THB million < 600

Source: *Key Challenges for SMEs Financial Access in Thailand, 2011*

Note: 1 USD = 31 Baht (THB)

Tables 2.1 and 2.2 depict the problematical definition between these two countries. Referring to number of employees, Thai’ small enterprises operating in manufacturing, services and wholesale sectors would be categorized as small and medium enterprises in Indonesia. In terms of Thai’s retail medium enterprises, they are classified as medium enterprise in Indonesia. Similarly, using the value of fixed assets (excluding land), the definition of Thai’ medium enterprise intersects with that of micro and small enterprises in Indonesia. This means, what is construed as medium enterprise in Indonesia falls into big enterprise in Thailand. In order to ensure compatibility of the findings, this research will focus on micro and small enterprises in Indonesia which is comparable with small and medium enterprises in Thailand.

## 2.2 Microfinance Institutions

Microfinance institution refers to a formal and informal institution that provides financial intermediary to those who have little or no access to banks (e.g. Brau & Woller, 2004; Dichter, 2007; Gutierrez-Nieto, Serrano-Cinca, & Mar Molinero, 2007; Hermes, Lensink, & Meesters, 2011). These scholars highlighted the significant difference between microfinance institution and other financial institution, namely its social objective. Emerge as a vehicle to promote informal financing, microfinance institution is “tasked” not only to provide financing, but also to alleviate poverty, to nurture women participation in economy and to increase living standard of its customers (Lucarelli, 2005). This is known as the outreach aspect of microfinance institution whereby the institution’ services are expected to be provided to more and more people. In addition, microfinance institution is expected to financially viable and

achieved financial sustainability. Maintaining good financial performance creates a challenge for microfinance institutions since (1) they cannot price their product (i.e. credit) competitively, and (2) most of these institutions are financially subsidized which raise the dependency issue. Fail cases of Asia Pacific' microfinance institutions to be financially independent are well documented by Getubig, Gibbons, and Remenyi (2000). In this context, only a handful microfinance institution survives the financial assistance ruse. One of these institutions is People' Bank (*Bank Rakyat Indonesia, BRI*) In Indonesia (Chaves & Gonzalez-Vega, 1996; Gutierrez-Nieto et al., 2007; Patten & Rosengard, 1990).

The twofold goals, though noble in intent, continue to fail to complement each other and eventually affected the performance of microfinance institutions. Murdoch (1999) marked the dilemma as "Microfinance Schism" and offered a win-win solution which involved a separation of goal and innovative lending schemes. There are various studies on the rise and fall of microfinance institutions. One comprehensive literature review is provided by Brau and Woller (2004) who synthesizes more than 350 academic papers related to topics contributed to microfinance debate.

In its progress, traditional financial intermediaries such as commercial banks have joined the microfinance enthusiasm (Hermes et al., 2011). They provide financing for "unbankable" customers and small-scale businesses under the perception that it is profitable after all. The success story of Grameen Bank has proven that poor people are good borrowers. Provided that they are facilitated with access to lending provisions and attractive fee structure, poor people meet their credit installment on time despite of the interest rate imposed on the borrowed money. Johnston and Murdoch (2008) provide supporting evidence for this notion based on a study on Indonesian household. The motivation to serve small scale businesses is further supported by two facts. First, across the world, small businesses have risen above the financial crises (1996 and 2006) which imply financial sustainability. Second, the involvement with small business financing will allow banks to fulfill their own interests. The first interest is to gain economic incentive as highlighted by Hermes et al. (2011). From studies conducted by Hamada (2003) and Hill (2001), it can be suggested that banks with prevalent big scale businesses loan portfolio are financially affected in more severe way than those with larger clientele of small scale businesses. The second interest is to gain social incentive whereby banks claim their acts to serve and be involved in small business financing as part of their corporate social responsibility (Hermes et al., 2011).

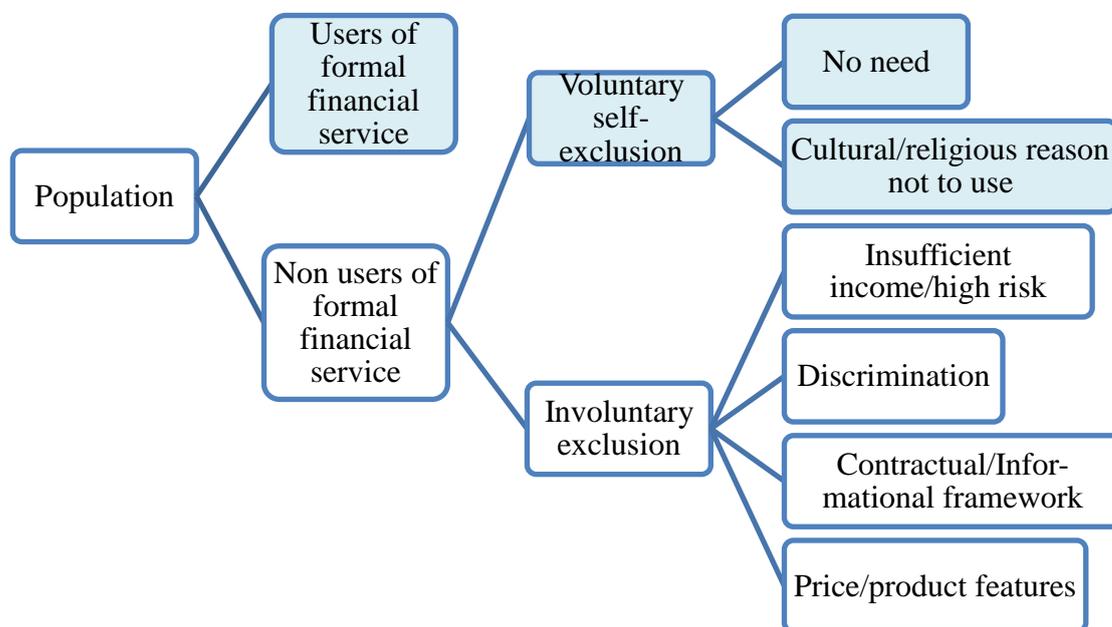
In Indonesia and Thailand, traditional financial intermediaries are an integral part of microfinance institutions. As mentioned previously, Indonesian commercial banks are mandated to achieve a predetermined threshold of MSMEs' loans. The rationale for inclusion of banks as financing providers for small business can be found on their strong capital structure and financial performance. Thus, banks are more equipped to offer competitive and attractive credit scheme. However, this rationale has not stood the test of time. Hermes et al. (2011) found that traditional financial institutions are reluctant to meet small business financing needs due to substandard cost-benefit analysis even when these businesses are bankable. Within this context, Thailand provides an advance outlook with government active involvement in the matter since

2008. As mentioned previously, there are four SFIs to serve more than 99% SMEs that form the nation’s economy. These are microfinance institutions in their entirety since they serve the twofold functions. They are facilitated and supported by government policies. Their innovative financing include the “One Village One Product” (OTOP) loans and asset capitalization program (SME Development Bank of Thailand). This research will annotate the different roles between Indonesian lending institutions and Thailand microfinance institutions.

### 2.3 Access to finance

Access to finance is defined as “the ability of an individual or enterprise to obtain financial services” (Demirguc-Kunt, Beck, & Honohan, 2008). These provisions include savings, loans and other financial products such as insurance. The emphasis on access to finance lies on the existence of opportunity and availability of financial provision rather than the utilization of such provision. Demirguc-Kunt et al. (2008) further describe the distinction between access to finance and the actual exercise of these opportunities as shown in Figure 2.1. The diagram clearly identifies intention as the discriminating factor. People (or enterprise), as part of the general population, who are in need of financial service but not served by financial institutions are said to be involuntary excluded from acquiring financial services. The majority of the reasons to exclude this group relates to disparity in objectives between financing providers and (prospective) users.

**Figure 2.1. The distinction between access to finance and use of finance**



Source: Demirguc-Kunt et al. (2008), *Finance for All*, p. 29

The significance of access to finance can be linked to financial growth and welfare (Beck & Demirguc-Kunt, 2006; Beck & Demirguc-Kunt, 2008). Figure 2.1 also suggests that there is inequality due to financial exclusion of some groups. To include these groups, financial institutions should provide equal opportunities and affordable financial services as are provided

to the rest of the population. The use of financial provisions serves as the engine for individual and enterprise to engage in the economy further, thus reducing poverty and increasing welfare. In the case of MSMEs, the issue of financial exclusion is marked as the second factor that hampers their business growth (Kushnir, Mirmulstein, & Ramalho, 2010). MSMEs in Indonesia and Thailand experience the same challenge when it comes to access to finance (Group, 2014). The main reason for this relates to information asymmetry, which lead to moral hazard and adverse selection.

The situation in Indonesia shows that individuals who are eligible to use financial services, which include the availability of collateral, have used these services for non-business purposes (Johnston & Morduch, 2008). These include consumption expenses and private expenses. This suggests there are underlying issues to be uncovered to increase the access to finance. The situation in Thailand is typified by asymmetry information that leads to collateral-based lending (Poonpatpibul & Limthammahisorn, 2005). Seven years later, the problem has shifted to institutional problem of SFIs, inadequate legal framework and capacity of SMEs. With persistent efforts towards promotion of SMEs and clear strategic actions, Thailand seems to progress steadily.

Access to finance is measured from supply and demand side. There are three dimensions to access to finance measurement, namely physical access, affordability, and eligibility (Demirguc-Kunt et al., 2008). These dimensions are translated into below indicators:

1. Credit demand: reasons for not having bank account, barriers to access (location, fees, processing time, document requirements), source of finance, preference of financing, reason for not applying for credit, reason for being rejected by financial institution, internal financial structure.
2. Credit supply: appropriate product and service, reasons for rejecting financial provision, credit registry, processing time, credit information sharing, importance of collateral.

These dimensions and indicators show the significance of asymmetry information that eventually increases the price of financial product and service. This research will use the same dimensions and indicators mentioned above with considerations to local context. In order to have a clear understanding on the impact of access to finance towards growth and welfare, additional data would be collected. These are number of loan and deposit per capita, loan and deposit size per GDP per capita, business environment and financial products.

## **CHAPTER 3 - RESEARCH OBJECTIVE AND PURPOSE**

### **3.1 Objectives**

This research aims to study and compare several factors that influence access of SMEs in acquiring business loan both in Indonesia and Thailand. Locus of the research focused in two cities of Indonesia, which were Depok and Bogor as well as two other provinces in Thailand, Phetchaburi and PrachuapKhiri Khan Provinces. The factors examined in the research were analyzed by two perspectives, among others from the SMEs and financial institution.

### **3.2 Purposes**

3.2.1 The research may be used as reference for general SMEs development policy making.

3.2.2 The research will bridge the gap between SME Owners and financial institution in Indonesia based on comparative study with Thailand.

3.2.3 Findings of the research shall contribute knowledge on innovative ways to improve financial credibility of SMEs and micro financial institution that will be suitable for particular area.

### **3.3 Outcomes**

Expected outcomes of the research are:

3.3.1 Determinant factors of SME's financing access at two areas, either in Indonesia or Thailand, shall support improvement of Indonesian small business financing policy.

3.3.2 Two academic paper drafts will be published in scopus-indexed international journal: Entrepreneurship and Regional Development and Journal of Developmental Entrepreneurship. One of the articles was written by Primary Researcher and shall grant approval from respective international journal within one year after the research publication is submitted.

3.3.3 The research findings will be presented at international conference "18th International Conference on Administrative Sciences," London on May 23 – 24, 2016.

## Chapter 4 - RESEARCH METHODOLOGY

### 4.1 Research Method

This research adapted mixed-method that combines or associates qualitative and quantitative methods (Creswell, 2009). There were three mixed-method strategies, particularly, and its variations that are illustrated as follows: Sequential mixed-method strategy, Concurrent mixed-method strategy and Transformative mixed-method strategy (Creswell, 2009). The research applied Sequential mixed-method strategy, which was procedure, where the researcher sought to compile or expand the findings obtained from one method and compared with findings from other methods. The strategy was exercised by conducting in-depth interview for explorative purpose and doing quantitative survey with sizeable sampling to enable the researcher in generalizing overall result of a population.

Data collection process was done using quantitative and qualitative methods. SMEs financing behavior data was collected through questionnaire that covered overall SMEs financing needs, preferences and constraints, experience with financial institution, as well as financial risk and business growth perspective. The questionnaire was distributed to 30 small entrepreneurs or managers in each area. Therefore, there were approximately 60 SMEs in Indonesia and Thailand, respectively, that represented financing demand in each area (financing demand aspect).

We also conducted in-depth interview with financial provider in Indonesia and Thailand to bring together information about financing scheme, product innovation, and requirement for SMEs and lending policy. This enabled the researcher to develop understanding on market concentration and structure of loan creditor. There were several distinctions between financial provider in Thailand and Indonesia, where the SMEs financing market has higher concentration in Thailand where the loan creditor institutions have more mature business cycle and more homogeneous in running their businesses. Information derived from the interview transcript was addressed to acknowledge aspects of financing supply.

Data collected from questionnaire were processed using Statistical Package for the Social Science software, and the output data were analyzed using descriptive and inferential statistics. Differential test was performed to examine difference between respondent's perspective in Indonesia and Thailand regarding set of factors that influencing SME's access in acquiring their business loans.

### 4.2 Research Stages

The researches comprise of five stages that were done in 10 months, as explained in Figure 4.1. The first stage was literature review to support development of research instrument (questionnaire and in-depth interview guideline). In this stage, the research team identified specific issues and other aspects related to each country. Those issues were later addressed to enrich discussion session arranged in the next stage. Further, the research team also developed sampling frame with list of potential SMEs and financial institution to be engaged in this research. This stage was dedicated to prepare every document that was required for data

collection.

The second stage was continued by developing and verifying the questionnaire. A pre - test was done to enhance the questionnaire. Besides questionnaire, the research team also developed in-depth interview guideline for sources from financial institution. During the second stage, the research team maintained intensive communication both with research team from Universitas Indonesia and Silkaporn University. This was intended to guarantee that the research instrument has fulfilled standards and general aspects for comparative purpose as well as other specific aspects to capture regional characteristic.

The third stage was done as data collection by distributing questionnaire and conducting in-depth interview with selected SME owners and financial institutions in Indonesia and Thailand.

The fourth stage consisted of data interpretation and data analysis process. Collected data was analyzed for each are, respectively, and compared quantitatively and qualitatively. During the process, the research team maintained communication and discussion with related parties from University in Thailand and conducted official visit to Thailand.

Final stage of the research was final report preparation and publication of research findings.

**Figure 4.1 Research Stages**



This research has reached final stage of final report preparation and publication of research findings that will be done sequentially within this year and the following year.

#### 4.3 Population and Sample

Population is defined as overall unit of the selected sample, while sample is part of the selected population of the research (Bryman, 2012). For Indonesia, SME population refers to all SMEs in Depok and Bogor cities. The researcher obtained list of SMEs from Chief of Cooperatives, SME and Market Agency of Depok and Bogor Cities. The SME list was further used as sampling frame. List of SME from Cooperatives, SME and Market Agency of Depok City mentioned 78 SMEs with variety of products such as food, beverages, clothing, laundry service. SME List from Cooperatives, SME and Market Agency of Bogor City was shorter than Depok City with only 51 SMEs registered and mentioned variety of products that were similar with SMEs in Depok City.

Sample of the research were 30 SMEs in Depok City and 30 SMEs in Bogor City. The sampling method was done using Systematic Random Sampling (SMS) method, despite for

some SMEs that applied accidental sampling method. This was due to several issues faced during the questionnaire distribution process, among others:

- (a) Sampling frame that was obtained by the researcher was List of SME for 2011 – 2013 period where some of the SMEs had closed their business when the questionnaire was distributed.
- (b) Incomplete address and phone number of the SMEs made them difficult to be contacted. This issue occurred to most of SMEs in Bogor City and some SMEs in Depok City.
- (c) Remote and unreachable location of the SME (not accessible by land transportation).

Considering those issues, some of selected SMEs had been chosen by accidental method, especially for SMEs in Bogor City.

In Thailand, Questionnaires were distributed in two areas. First, 30 questionnaires were distributed at Hua-Hin (Prachuap Khiri Khan Region) and 30 questionnaires were distributed at Cha-Am (Petchaburi Region). The researcher could not obtain sampling frame on Thailand SME, thus accidental sampling method was used. The sampling method was taken considering convenience factor where the questionnaires were distributed to Small Entrepreneurs found in those two areas. Characteristic of SME Industry sector in both areas were homogeneous which were retail with following sub-industries: food, beverages, beauty salon, drugstore and furniture.

#### 4.4 Informants

Interviews were conducted with financial creditor (institution) both in Indonesia and Thailand. The interview was aimed to observe information about financing scheme, product innovation, requirement for SME and lending policy. Following interviews were done for the research:

- a. Indonesian Bank
  1. SME Development Department Head, Central Bank of Indonesia
  2. SME Development Division Head, People's Bank
- b. Thailand Bank
  1. Chief of Krung Thai Bank (KTB) for Cha Am Region
  2. Chief of Bangkok Bank (BBL) for Cha Am Region
  3. Chief of Saving Bank (GSB) for Cha Am Region
  4. Chief of Kasikorn Bank (KBANK) for Hua Hin Region
  5. Chief of Thai Military Bank (TMB) for Hua Hin Region

Other than above-mentioned sources, we will also conduct interviews with The Indonesian State Bank (Bank Negara Indonesia, hereafter referred as BNI), Bank Mandiri and Rural Banks after submitting this research report to acquire information about financing scheme, product innovation, and requirement for SME and lending policy. Full transcript of the in-depth interview will be attached in material of this research publication.

## CHAPTER 5 - RESEARCH FINDINGS

### 5.1 OVERVIEW OF RESEARCH OBJECT

#### 5.1.1 Description of Respondents in Depok and Bogor Cities

Depok is the south-most city of DKI Jakarta Province. As a direct-border city with Capital of the State, and periphery of Jakarta City, Depok City is exposed by massive population migration stream as the impact of raising number of residential, education, trading and service area. As an administrative city, Depok embraced rapid development, primarily in economic sector where Depok City marked its economic development with growing number of business players in Depok City. According to data released by Cooperatives, SME and Market Agency of Depok City, there were 10,907 SMEs registered in 2009, spread across 6 districts in Depok City. Table 5.1 shows the number of SMEs that are operating in Depok City.

**Table 5.1 Number of SMEs by District in Depok City**

District	Number of SMEs
Sawangan	2.155
Limo	756
Pancoran Mas	1.176
Beji	1.235
Cimanggis	3.671
Sukmajaya	1.914
Total	10.907

Source: Data published by Cooperatives, SME and Market Agency of Depok City, 2009

Depok and Bogor are located just outside of Jakarta City. Depok and Bogor recorded rapid economic growth and boosted number of Banks in both cities. The following data explained that number of Banks reached to 45 banks in Depok and 37 Banks in Bogor. Table 5.2 provides a more comprehensive data about the number of banks.

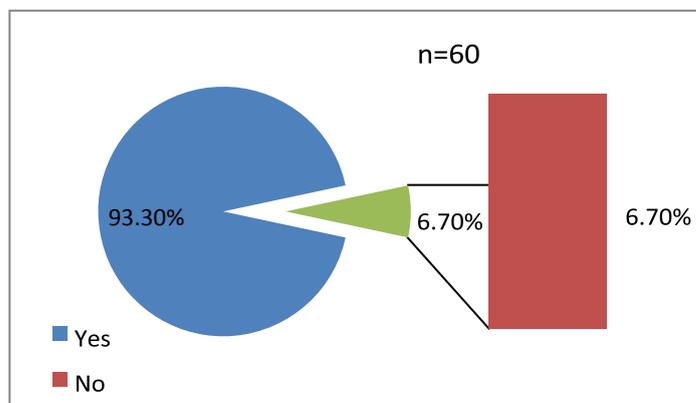
**Table 5.2 Number of Banks in Depok and Bogor Cities**

	Bank BRI	Bank Mandiri	BNI	BPR
Depok City	1	14	11	19
Bogor City	2	13	15	7

High number of Banks in Depok and Bogor indicated accessibility for SME owners to banking sectors had been sufficient. This was also confirmed by result of the survey that

identified location of Banks. As high as 91.7% of 60 respondents declared that the Banks were located in their residential or commercial neighborhood, with only 8.3% of the respondents claimed the Banks were in distant location (Chart 5.1).

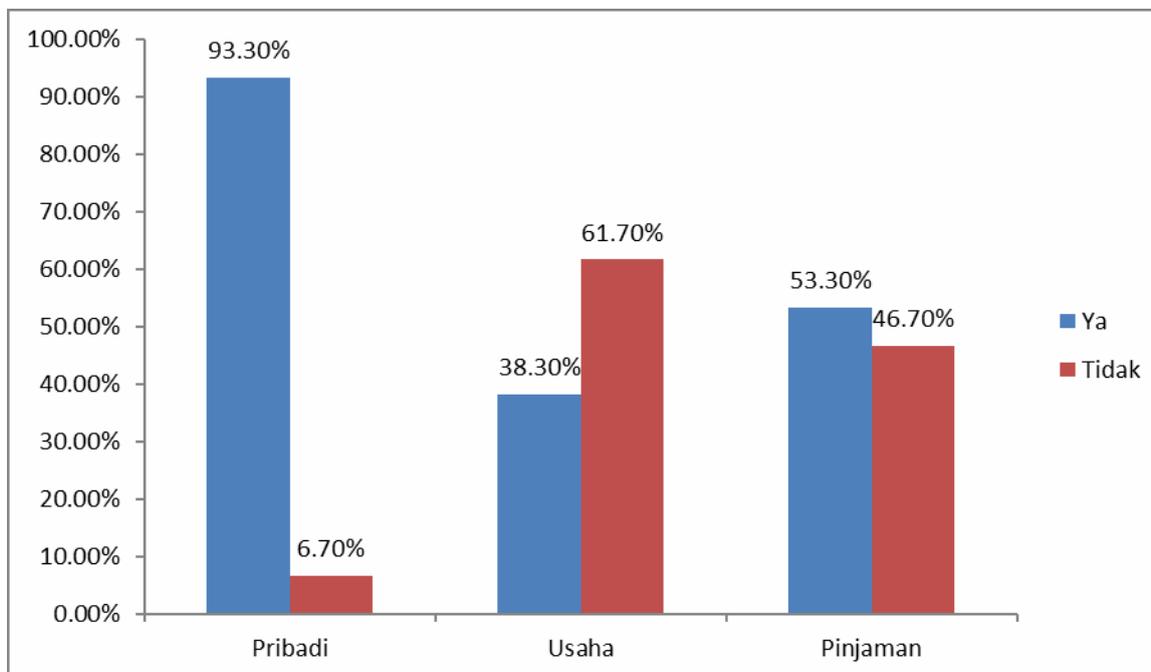
**Chart 5.1 Bank’s Location Nearby Residential/Commercial Area, Indonesia**



Source : Primary Data, 2015

All respondents who stated that location of the Banks were nearby their residential or commercial area, had personal accounts in those Banks, with only 38.3% respondents have registered separated accounts for their business as shown in Chart 5.2. The chart also showed the number of respondents who received financing provision from banks (53.3%) and those who have never borrowed money from banks (46.70%).

**Chart 5.2 Ownership of Accounts and Borrowing Experience, Indonesia**



Source : Primary Data, 2015

Notes: Pribadi = Personal; Usaha = Business; Pinjaman = Loans; Ya= Yes; Tidak = No

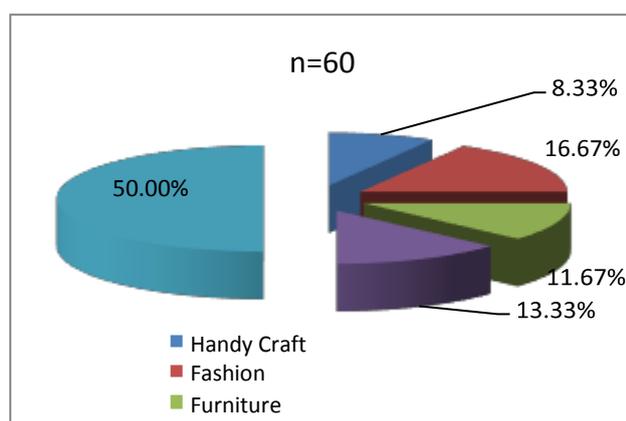
Chart 5.2 indicated that there were many SME owners owned a joint personal and business accounts. Generally, the SME owners had not have full understanding on the urgency of registering for separated business account and felt satisfied using their personal accounts. Another fact was many of the SME owners were individual entrepreneurs whose business do not have legal documents (i.e. informal and unregistered). Thus, every related aspect of their business was still under personal acknowledgement of the SME owners.

Another finding of the research explained that 53.3% of the respondents submitted loan application to the Banks for their business needs. However, according to previous data, there were only 38.3% respondents having separated business accounts. This indicated that some of the respondents were still applying personal loan scheme for their business needs. Concurrent with reason of the account merger, which was to simplify account register process and financing process when needed, the respondents took advantage from easier personal loan requirements for business debtors. Based on this information, we concluded that (1) Bank’s financing scheme had not accommodated SME’s business features, (2) Government’s policy to encourage SME’s formality had not been optimal, and (3) there is a lack of accuracy of SME financing data that affect the government’s policy.

### 5.1.2 Characteristics of Respondents in Depok and Bogor Cities

In total, this research involved 120 respondents from SME owners in two selected rural areas in Indonesia (60 respondents) and Thailand (60 respondents). In Indonesia, the research site covered Depok and Bogor cities. Type of SME’s products in Depok and Bogor cities were shown in Chart 5.3 below. Majority of the SMEs as our respondents were operated in Handicraft (50%), followed by Fashion (16.67%) and Furniture (11.67%) sectors.

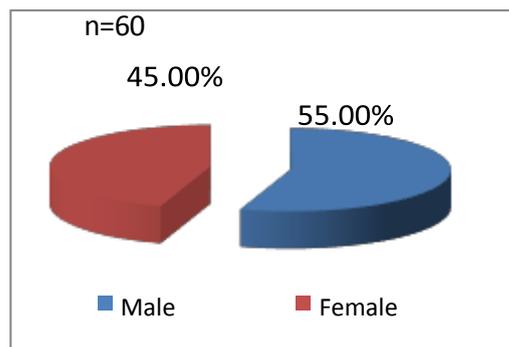
**Chart 5.3 Type of SME’s Products in Depok and Bogor, Indonesia**



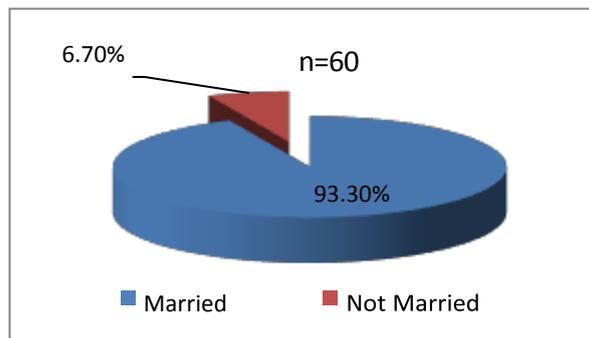
Source : Primary Data, 2015

From 60 respondents of SME Owners in Depok and Bogor cities, analyzed based on gender and marital status, majority of the respondents or 55% were Male and Married (93.3%), as illustrated in Chart 5.4 and 5.5 below:

**Chart 5.4 Respondents by Genders in Depok and Bogor, Indonesia**



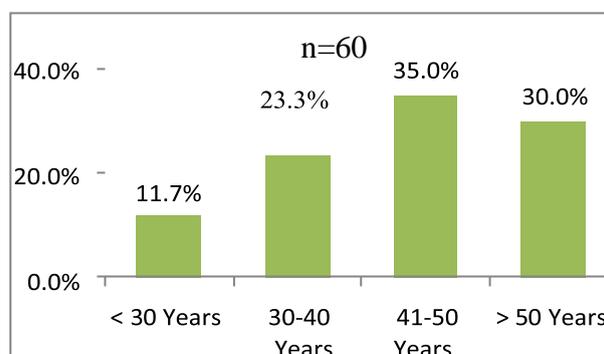
**Chart 5.5 Marital Status, Indonesia**



Source: Primary Data, 2015

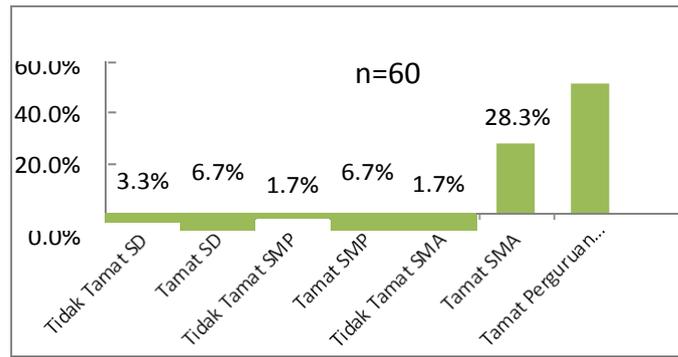
Chart 5.6 and 5.7 illustrated that all of SME owners in Depok and Bogor Cities were in productive age or age group where individual possesses ability to produce products and services (15-64 years) and most of the respondents had completed High School and University level (80%), with only 3.3% of the respondents not completed Elementary School and 6.7% of the respondents completed Elementary School. This indicated that SME owners in Depok and Bogor cities had adequate educational background to run their businesses recently. The data also indicated that being an SME owner (Entrepreneur) becomes a promising job and an alternative to eradicate unemployment rate in Indonesia today.

**Chart 5.6 Respondents by Age, Indonesia**



Source : Primary Data, 2015

**Chart 5.7 Respondents by Education Level, Indonesia**



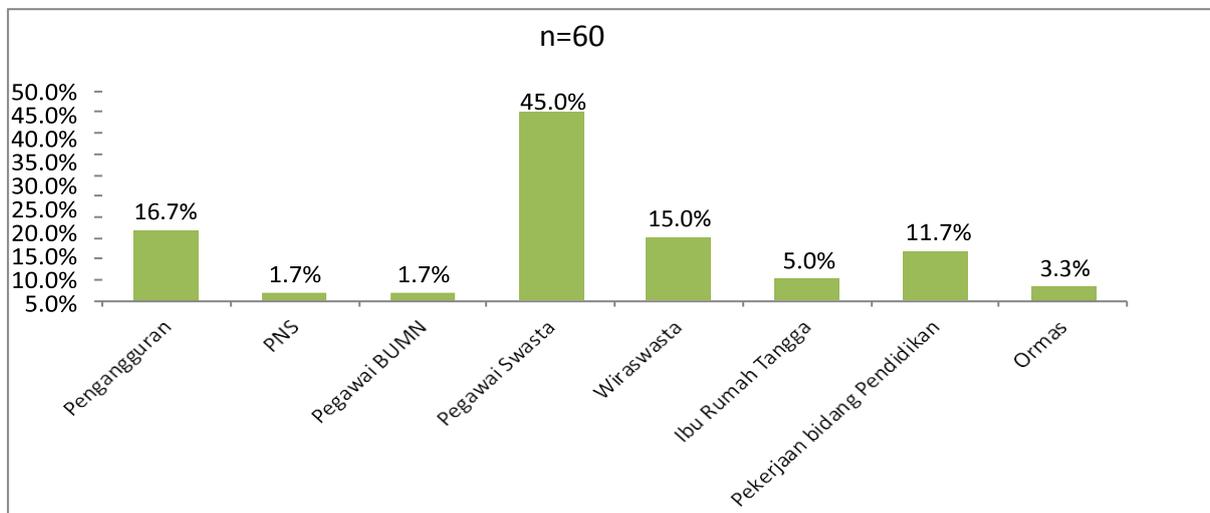
Source: Primary Data, 2015

Notes:

- Tidak Tamat SD = Do Not Complete Primary School
- Tamat SD = Completed Primary School
- Tidak Tamat SMP = Do Not Complete Secondary School
- Tamat SMP = Completed Secondary School
- Tidak Tamat SMA = Do Not Complete High School
- Tamat SMA = Completed High School
- Tamat Perguruan Tinggi = Completed Higher Education

Chart 5.8 showed previous employment before respondents chose to open a business.

**Chart 5.8 Previous Occupation Before Being an Entrepreneur, Indonesia**



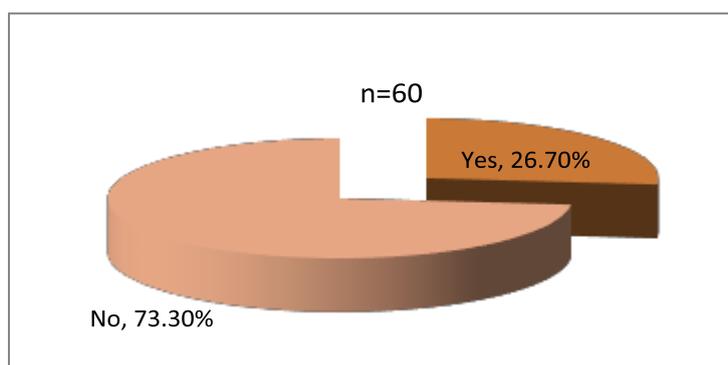
Source : Primary Data, 2015

Notes:

- Pengangguran = Unemployed
- PNS = Civil Service/Public Service
- Pegawai BUMN = Employee at State-Owned Enterprise
- Pegawai Swasta = Private Enterprise
- Wiraswasta = Entrepreneur
- Ibu Rumah Tangga = Housewife
- Pekerjaan bidang Pendidikan = Academic Institutions
- Ormas = Social Organizations

We can infer that 50% of the respondents already had occupation before opening their businesses. The type of the occupations were mainly private enterprises (45%) and entrepreneur (15,0%), and education sector (11.7%), with only 15% of the respondents had chosen their career as Entrepreneurs since the beginning. Complete data were presented in Chart 5.8. Chart 5.9 showed that 73.3% of the respondents declared that they were no longer engaged in their jobs and only focus on their business while the rest of 26.7% were still doing their previous job before becoming Entrepreneurs recently. This explained that 26.7% of the respondents regarded their SME businesses as side-business or supplementary of their main job.

**Chart 5.9 Multiple Employment, Indonesia**



Source: Primary Data, 2015

### 5.1.3 Description of Respondents in Cha Am and Hua Hin Cities

Phetchaburi Province is one of provinces in Thailand that was selected as case study in this research. The Province has a GDP worth 58,085.8 million Baht in 2009. In 2011, the province achieved Income per capita of 109,664.3 Baht. Monthly average income per household amounted to 20,025.8 Baht in 2011. Total population of the province reached to 468,874 people in 2012. It had population density of 75.32 people per Kilometer Square in 2012. Working population of the province recorded 289,723.45 workers as of April 2013. Meanwhile, as of April 2013, total labor force achieved 292,488.72 labors.

The second province was Prachuap Khiri Khan with total population of 517,050 in 2012. The province had population density of 81.20 people per Kilometer Square in 2012. The province recorded GDP on current price of 64,751.8 million Baht in 2009. Monthly average income per household amounted to 121.704,9 Baht in 2011. Working population reached to 312,810.65 workers as of April 2013. Meanwhile, as of April 2013, total labor force achieved 313,688.10 labors in Prachuap Khiri Khan Province.

There were 58 and 54 active SMEs in Cha Am and Hua Hin City respectively. Furthermore in Cha Am and Hua Hin City had 7 provided SME banking services as illustrated in Table 5.4.

Vast numbers of SMEs in Cha Am and Hua Hin cities with minimum serving banks indicated poor accessibility of the SME owners to banking sectors based on location. However, answers submitted by the respondents failed to capture this condition as illustrated in Chart 5.10. Such condition occurred as the impact of accidental sampling method.

**Table 5.3 Total SMEs in CHA AM and HUA HIN Cities**

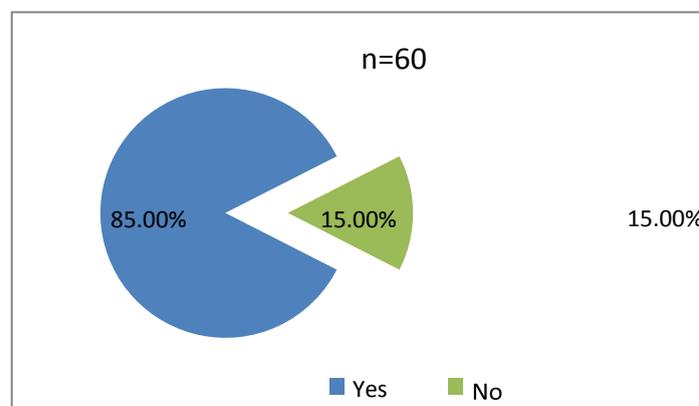
City	Total
Hua Hin	54
Cha Am	58

**Table 5.4 Total Banks in CHA AM and HUA HIN Cities**

	BBL	K-Bank	BAY	SCB	KTB	TMB	GSB
Cha Am City	1	1	1	1	1	1	1
Hua Hin City	1	1	1	1	1	1	1

Majority of respondents in Thailand stated that location of the Banks was nearby their residential or business area (85%). However, 15% of the respondents claimed that the location of the Banks was far. Complete data is presented in Chart 5.10 below. The data was reciprocal with data acquired from Indonesia where majority of the respondents confirmed that they were nearby the Banks despite total majority of respondents were more significant in Indonesia (91.7%) than Thailand (85%).

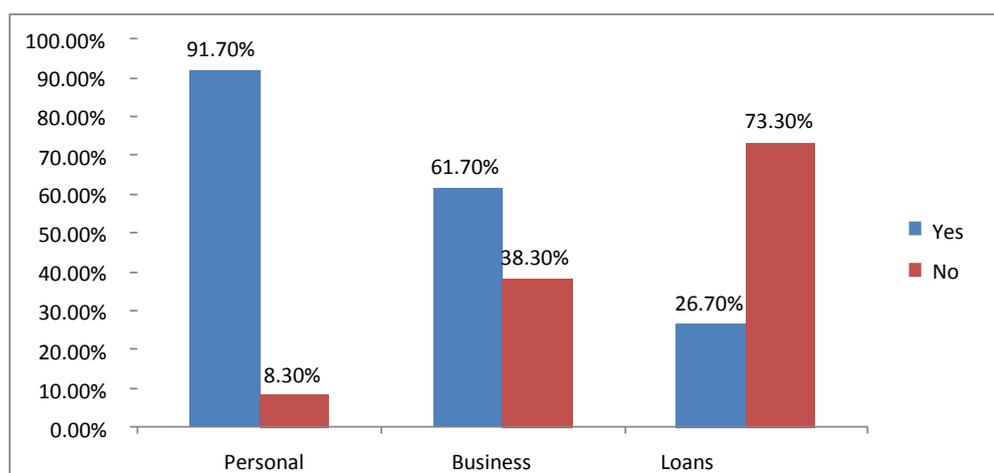
**Chart 5.10 Bank’s Location Nearby Residential/Business Area, Thailand**



Source : Primary Data, 2015

Although 15% of the respondents lived in distant location with the Banks, some of them had accounts at the Banks as indicated by significant number of respondents with personal accounts at the Banks that reached 91.7% of the respondents. Contrary to Indonesia, 61.7% of respondents in Thailand owned separate business accounts. The chart also showed the number of respondents who received financing provision from banks (26.7%) and those who have never borrowed money from banks (73.3%).

**Chart 5.11 Ownership of Accounts and Borrowing Experience, Thailand**



Source: Primary Data, 2015

Notes: Pribadi = Personal; Usaha = Business; Pinjaman = Loans; Ya= Yes; Tidak = No

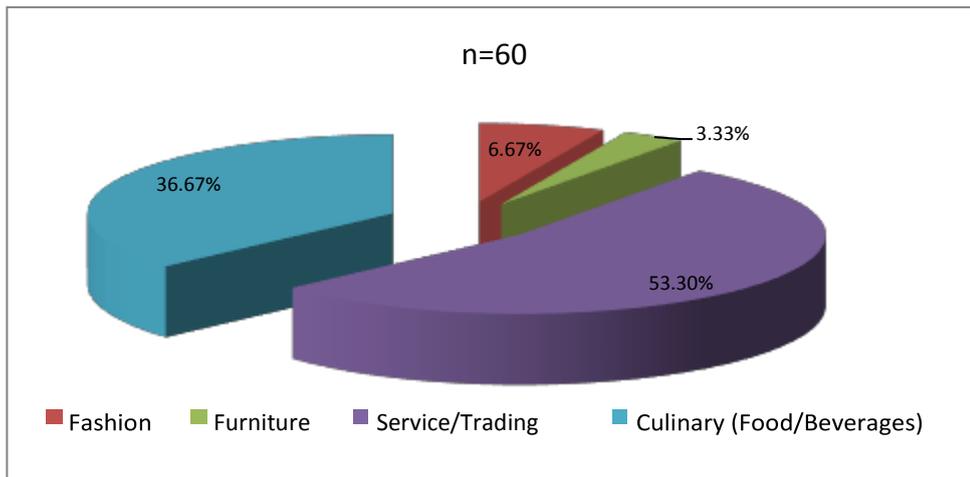
From Chart 5.11, we can infer that the total SMEs with separated business accounts in Thailand (61.7%) were higher than that of Indonesia (38.03). According to in-depth interview that was done with Banking officials in Thailand, significant numbers of business account holders represented consequences of financing procedure where the business saving statements was required as primary documents. This was different with Indonesia case where business legality and financial statements were treated as primary documents for banking loan application.

However, Indonesia demonstrated data with higher number of borrowers than Thailand. In Thailand, there was only 26.7% respondents borrowed money from the Banks for their business needs. This reflected different condition with Indonesia where almost 50% respondents in Indonesia proposed loans from the Banks for their business needs despite majority of the respondents were never registered for separated business accounts in the Banks, on the other hand, Thailand recorded only half of this figure (26.7%).

#### 5.1.4 Characteristics of Respondents in Cha Am and Hua Hin City

This research involved 120 respondents as SME owners in rural area of Indonesia and Thailand. In Thailand, location of the research covered Cha Am and Hua Hin. Based on type of SME products that were available in Cha Am and Hua Hin, Thailand, complete data was presented in Chart 5.12 below. Majority of SMEs as our respondents were operated in service or retail sectors (53.3%), followed by culinary (36.67%), fashion (6.67) and furniture (3.33%).

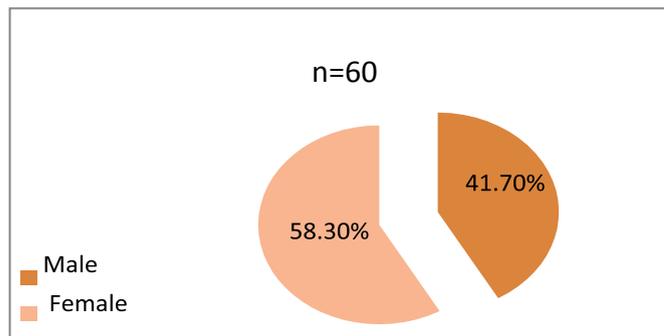
**Chart 5.12 Type of SME Products in Cha Am and Hua Hin, Thailand**



Source : Primary Data, 2015

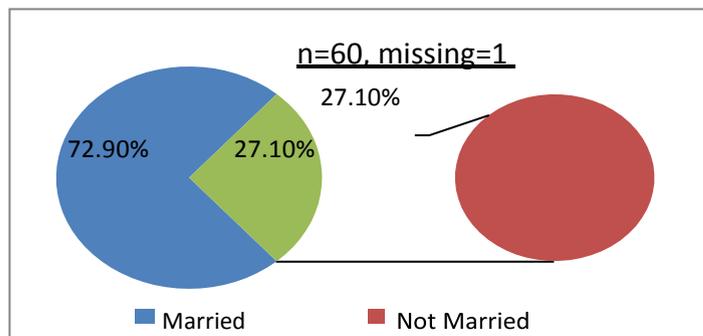
Based on gender (Chart 5.13) and marital status (Chart 5.14), over 60 SME owners lived in Cha Am and Hua Hin cities, majority or amounted to 58.2% were Female and married (72.9%). This is opposite to Indonesia context where majority of SME owners were Male (55%).

**Chart 5.13 Respondents by Gender, Thailand**



Source: Primary Data, 2015

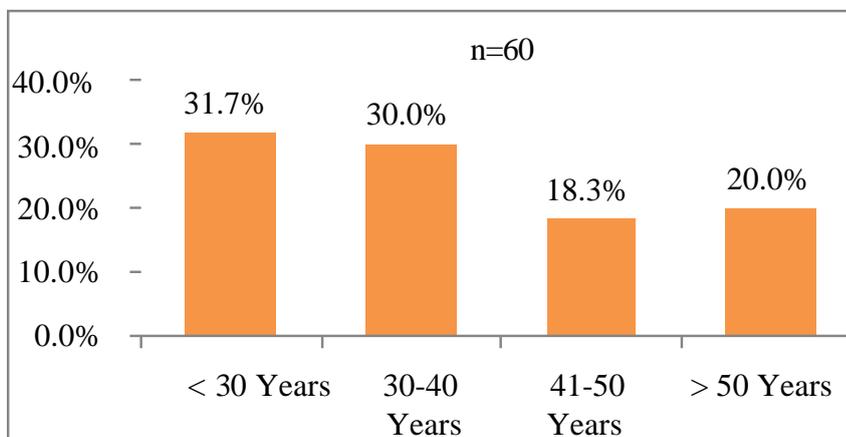
**Chart 5.14 Marital Status, Thailand**



Source: Primary Data, 2015

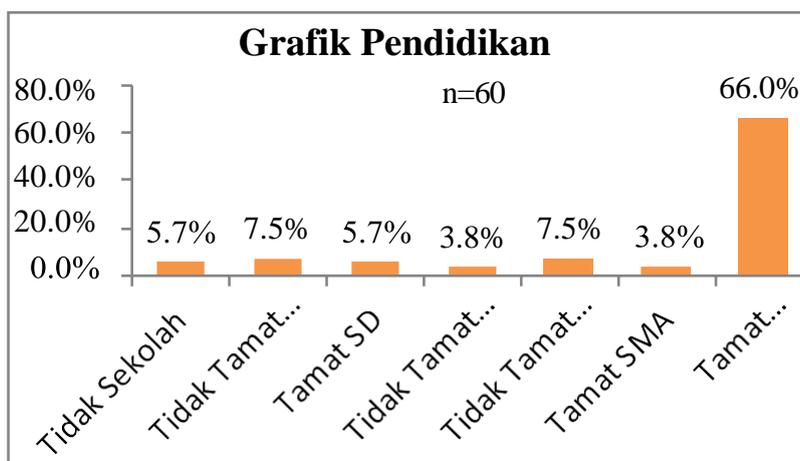
Chart 5.15 and 5.16 showed the respondents profile with regards to age and education. SME owners in Cha Am and Hua Hin cities were under productive age group where individual possesses ability to produce products and services (15-64 years). This condition was similar with Indonesia case where entire respondents were under productive age group.

**Chart 5.15 Respondents by Age, Thailand**



Source: Primary Data, 2015

**Chart 5.16 Respondents by Education level, Thailand**



Source: Primary Data, 2015

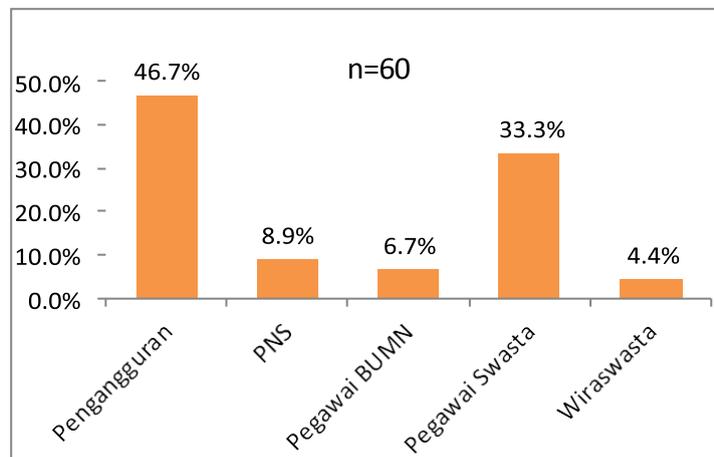
Notes:

- Tidak Tamat SD = Do Not Complete Primary School
- Tamat SD = Completed Primary School
- Tidak Tamat SMP = Do Not Complete Secondary School
- Tamat SMP = Completed Secondary School
- Tidak Tamat SMA = Do Not Complete High School
- Tamat SMA = Completed High School
- Tamat Perguruan Tinggi = Completed Higher Education

Chart 5.16 above showed that most of the respondents had graduated from University or reached to 66% with only 5.7% of the respondents was never enrolled in school and 7.5% of the respondents do not completed Elementary School. From education aspect, there was a sharp gap

among SME owners as our respondents in Thailand where 66% was university graduates and approximately 34% of the respondents had diverse educational level ranging from basic and middle education level. On the other hand, majority of the SME owners had completed High School and University (80%). However, according to the in-depth interview with financing providers in Indonesia and Thailand, it can be concluded that SME owners in Thailand possessed better understanding on banking products and financing scheme. Essentially, Chart 5.15 and 5.16 explained that majority of SME owners in Cha Am and Hua Hin were below 30 years and between 30 – 24 years with adequate educational background who were mostly University graduates. The data also indicated that becoming Entrepreneurs had been an alternative among other options taken by the University graduates in Thailand, as also seen from numerous data regarding age group where 30% of the respondents had started their businesses before 30 years old. Respective condition was also illustrated from Chart 5.17 and Chart 5.18 below:

**Chart 5.17 Previous Occupation before Being An Entrepreneur, Thailand**



Source : Primary Data, 2015

Notes:

Pengangguran = Unemployed

PNS = Civil Service/Public Service

Pegawai BUMN = Employee at State-Owned Enterprise

Pegawai Swasta = Private Enterprise

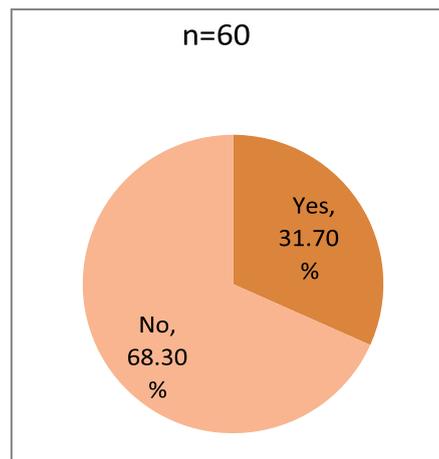
Wiraswasta = Entrepreneur

Ibu Rumah Tangga = Housewife

Pekerjaan bidang Pendidikan = Academic Institutions

Ormas = Social Organizations

**Chart 5.18 Reason for Continue Working, Thailand**



Source: Primary Data, 2015

From the survey result, it can be inferred that almost 50% of the respondents did not have any job before opening business. If attributed to education background and age group, this indicated that almost 50% of the respondents became Entrepreneurs shortly after graduating the University. However, there was 33.3% of the respondents claiming that they worked as private employees before turning into entrepreneurs. About 31.7% of the respondents with occupation are still doing their job recently. The data explained that 31.7% of respondents was working-entrepreneurs or, on other words, having side or additional business.

## 5.2 OVERVIEW OF RESEARCH VARIABLE

Measurement to financial access was referring to supply and demand aspects. There were three financial access dimensions, among others, physical access (accessibility), properness or eligibility and affordability (Demirguc-Kunt et al., 2008). These dimensions were classified into following indicators:

1. Credit demand: Not having any deposit in the Bank, access barriers (location, cost, application processing time, documents requirement), source of financing, financing preference, Not willing to propose credit application, rejection from financial institution, financial structure of the business.
2. Credit supply: Appropriate products and services, financial service rejection, availability of credit information agency, credit application processing time, important role of collateral.

After classified into questionnaire, the indicators used to measure research variables were explained in following table:

**Table 5.5 Research Indicators**

NO	STATEMENT
1.	Bank is located nearby the house
2.	Bank is located nearby the business location
3.	Bank's location is accessible by means of transportation (public/private)
4.	I have good understanding on general products offered by the banks
5.	I have good understanding on SME products offered by the banks
6.	I have good understanding on Bank's financing scheme for SME
7.	Requirements applied by the Bank for SME Financing scheme is feasible
8.	Interest applied by the Bank for business loan is affordable
9.	I am eligible to fulfill collateral requirement for SME financing scheme from the Bank
10.	I am eligible to fulfill every documents requirement required by the Banks for SME financing scheme

### 5.2.1 Accessibility Dimension

Considering the Accessibility dimension, there were three indicators applied in this research, including distance of Bank's location with house and business location as well as accessibility of the Bank. Survey result on 120 respondents is explained in table below:

**Table 5.6 Accessibility Dimension**

Statement	Inappropriate		Neutral		Appropriate		Mean	
	INA	THA	INA	THA	INA	THA	INA	THA
Bank is located nearby the house	13.30%	15.00%	1.70%	15.00%	85.00%	70.00%	4.12	3.95
Bank is located nearby the business location	6.70%	8.30%	3.30%	13.30%	90.00%	78.30%	4.25	4.18
Bank's location is accessible by means of transportation (public/private)	1.70%	1.70%	0.00%	15.00%	98.30%	83.30%	4.55	4.33

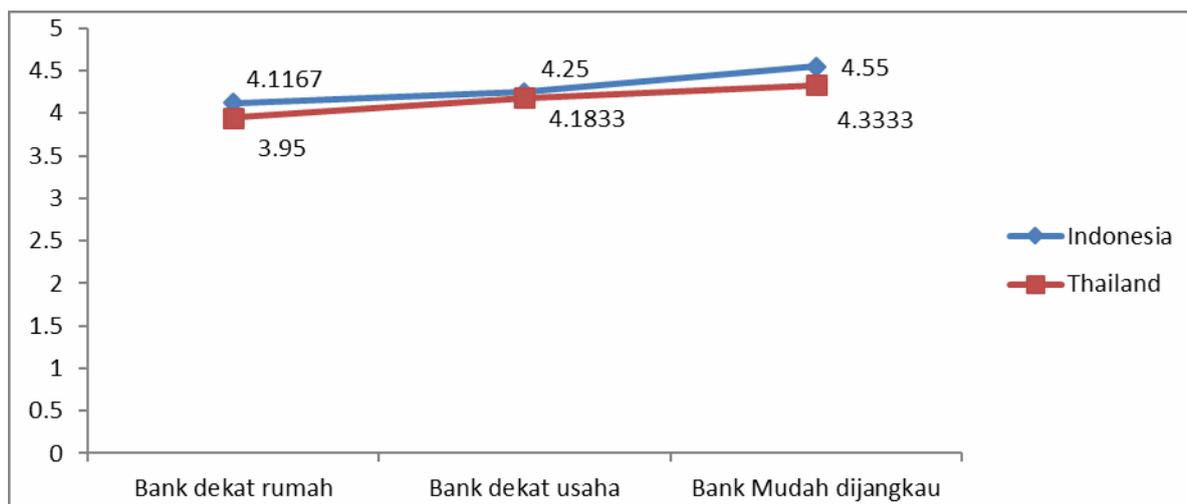
Source : Primary Data, 2015

Notes:

INA = Indonesia; THA = Thailand

From above table, we can infer that overall majority of the respondent expressed agree and very agree statements for the statements “Bank is located near by the house” and Bank’s location is accessible, both in Indonesia and Thailand. This indicated that majority of respondents in Indonesia and Thailand did not experience any physical (accessibility) constraint on financing access in Banking sector. However, by its percentage, Indonesia still had higher SME’s accessibility than Thailand. Finding of overall Mean score is explained below:

**Chart 5.19 Accessibility Dimension**



Source : Primary Data, 2015

Notes:

Bank dekat rumah = Bank are located nearby the house

Bank dekat usaha = Bank are located nearby the business location

Bank Mudah Dijangkau = Bank’s location is accessible by means of transportation (public/private)

Above chart illustrated that mean score of three indicators measuring accessibilities in Indonesia were generally higher than Thailand. This showed that respondents in Indonesia generally did not experience any physical constraint in accessing financing service from banking sector. Meanwhile, as seen from lowest score of above chart at 3.95, case in Thailand indicated that significant number of respondents lived in location far from the banking area that led to physical barrier, although less dominant, that was higher than Indonesia. This was being consistent with field condition in Depok-Bogor with major difference comparable with condition in Cha Am-Hua Hin.

### 5.2.2 Eligibility Dimension

Eligibility Dimension was measured using four indicators, among others, knowledge on general and segmented (SME only) products offered by the Banks, knowledge on financing application procedure, financing requirement, capability to fulfill collateral requirement in the financing scheme and capability to fulfill documents requirement required in the financing scheme. Survey result is presented in Table 5.7 with data as follows:

**Table 5.7 Eligibility Dimension**

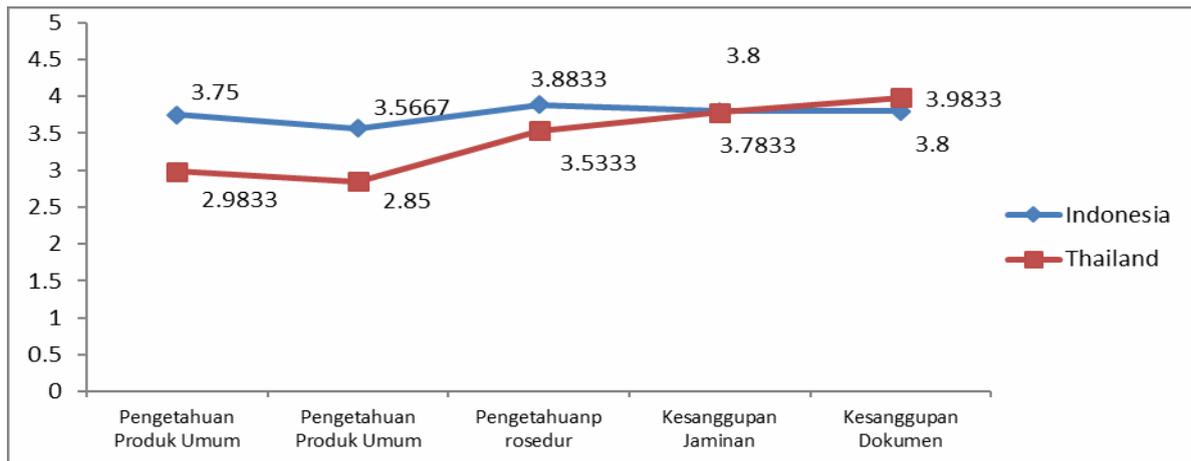
Statements	Inappropriate		Neutral		Appropriate		Mean	
	INA	THA	INA	THA	INA	THA	INA	THA
I have good understanding on general products offered by the banks	20%	30%	5%	35%	75%	35%	3.7500	2.9833
I have good understanding on SME products offered by the banks	26.7%	30%	5%	41.7%	68.3%	28.3%	3.5667	2.8500
I have good understanding on Bank's financing scheme for SME	18.3%	21.7%	0%	21.7%	81.7%	56.7%	3.8833	3.5333
I am eligible to fulfill collateral requirement for SME financing scheme from the Bank	13.3%	13.3%	6.7%	18.3%	80.0%	68.3%	3.8000	3.7833
I am eligible to fulfill every documents requirement required by the Banks for SME financing scheme	16.7%	6.7%	3.3%	18.3%	80.0%	75%	3.8000	3.9833

Source : Primary Data, 2015

Notes: INA = Indonesia; THA = Thailand

Survey result above disclosed that overall majority answers from respondents in Indonesia expressed agree and very agree statements for above statements. First three statements measured knowledge of respondents on the bank's products and financing procedure. From above data, it can be inferred that majority of respondents in Indonesia had better knowledge on banking products and financing procedure than respondents in Thailand. There were only 35% respondents in Thailand who acknowledged banking products generally and 28.3% respondents acknowledged SME banking products. However, more than 50% respondents, both in Indonesia and Thailand, had met banking collateral and financing documents requirement. The previous data and description indicated that, based on eligibility aspect, majority of respondents in Indonesia had higher eligibility than respondents in Thailand. This was also confirmed by mean score illustrated in chart below:

**Chart 5.20 Eligibility Dimension**



Source : Primary Data, 2015

Notes:

- Pengetahuan Produk Umum = Good understanding on general products offered by the banks
- Pengetahuan Produk Umum UMKM = Good understanding on SMEs financing offered by the banks
- Pengetahuan Prosedur = Good understanding on Bank's financing scheme for SME
- Kesanggupan Jaminan = Eligible to fulfill collateral requirement for SME financing scheme from the Bank
- Kesanggupan Dokumen = Eligible to fulfill every documents requirement required by the Banks for SME financing scheme

Overall mean score from all indicators demonstrated that SME owners in Thailand possessed lower level of knowledge on banking products than SME owners in Indonesia, though their capability to fulfill financing collateral requirement was slightly higher than SME owners in Indonesia. According to in-depth interview result with banking officials in Thailand, every Bank provides regular banking service socialization program in Cha Am and Hua Hin cities. Result of the questionnaire was consistent with bank's well-planned socialization activity where the bank should maximize cost-benefit of the socialization event. Roadshow was preferred as the method and conducted in several locations in Cha Am and Hua Hin cities during certain period. Event promotion was disseminated long before to the citizen of both cities so that they will attend the socialization event at the D day. In this event, the citizen had opportunity to engage in private consultation session with bank's staffs, discuss about the bank's products and even submit credit application even though the appraisal process was not done during the event. Contrary with situation in Thailand, banks in Indonesia were not regulated to arrange proactive event because they already had sufficient institutional outreach.

Interesting point was the perception of the respondents regarding capability to fulfill collateral and administrative requirements set by the banks. In both countries, majority of the respondents declared their selves capable to fulfill collateral and administrative requirements apart from general consent that claimed collateral and documents requirement were constraints for SME to access financing from the banks. Explanation of this issue was disclosed in previous studies as mentioned in Chapter 2. Earlier research analyzed issue from financing provider perspective while this research observed the case from both financing provider and user perspectives. Therefore, it can be concluded that there was no difference in perception where

SME owners mentioned there was no issue with collateral and administrative requirements, meanwhile, banking party viewed certain issues in both points. Based on in-depth interview session with banking party in Indonesia, quality of SME's collateral and documents were below the big enterprises and forced the bank party to allocate more resource regarding financing risk mitigation. This became manifestation of asymmetric information case that underlies limitation of financing access.

To solve this issue, Indonesian Financial Service Authority (OJK) set an initiative to develop collateral registry where every creditor candidate has to register his collateral. Until this report been prepared, the initiative had not been socialized to the banking party. On the other hand, Thailand Government had taken more flexible imitative with regards to SME financing insurance issue. If the applicant did not have any assets to be registered as collateral, Bank had to include the business as collateral. In this case, we can also infer difference of character between SMEs operated in Indonesia and Thailand. In Thailand, SMEs were way more formalized while, despite its formal entity, SMEs in Indonesia did not always run their business professionally nor complying with normative business management principle.

### 5.2.3 Affordability Dimension

Based on Affordability Dimension, there were two indicators applied in this research, among others, access to financing requirement and affordable interest. The survey result demonstrated following data:

**Table 5.8 Affordability Dimension**

Statements	Inappropriate		Neutral		Appropriate		Mean	
	INA	THA	INA	THA	INA	THA	INA	THA
Requirements applied by the Bank for SME Financing scheme is feasible	25.0%	16.7%	13.3%	21.7%	61.7%	61.7%	3.5167	3.7167
Interest applied by the Bank for business loan is affordable	26.7%	16.7%	18.3%	15%	55.0%	68.3%	3.4500	3.7667

Source : Primary Data, 2015

Notes: INA = Indonesia; THA = Thailand

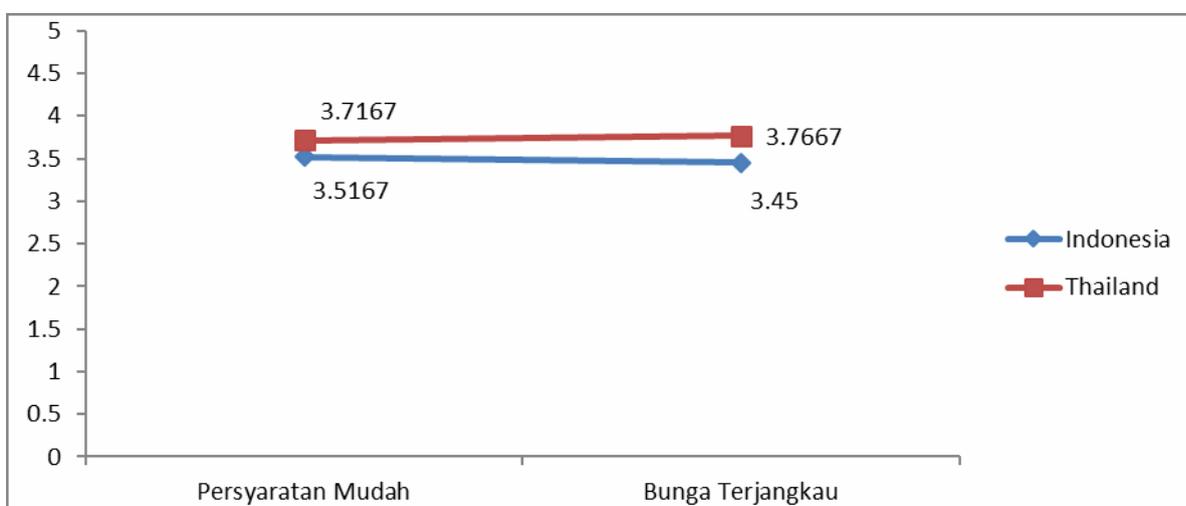
Above survey result presented that more than 50% respondents, both in Indonesia and Thailand expressed agree and very agree answers on the statements “Requirements applied by the Bank for SME Financing scheme is feasible” and Interest applied by the Bank for business loan is affordable.” This indicated that majority of the respondents had been able to access financing service from the Banks. Thus, based on detail percentage, appropriate score was fair approximately 55% - 61% for respondents in Indonesia and 61.7% to 68.3% for respondents in Thailand. The lowest percentage scored upon statements related to Bank's interests where respondents in Thailand assumed the Bank's interests was affordable comparable with

assumption from respondents in Indonesia.

Result was consistent with eligibility dimension where respondents in both countries did not consider the Bank's requirements (including collateral) as difficult. However, pursuant to previous dimensions, former studies were tended to place credit interest as contributing factor on SME's financing low access. In Indonesia, bank's interest rate was oriented on Bank Indonesia rate. On other words, stipulation of financing price was relatively standardized.

The result also indicated that ore than 50% respondents in Indonesia and Thailand did not experience any affordability issue on financing access in Banking sector. However, by its percentage, affordability of SME owners in Thailand was slightly higher than Indonesia. Overall Mean score is illustrated below:

**Chart 5.21 Affordability Dimension**



Source: Primary Data, 2015

Notes:

Persyaratan Mudah = Requirements applied by the Bank for SME Financing scheme is feasible

Bunga Terjangkau = Interest applied by the Bank for business loan is affordable

From above chart, the general mean score from two indicators to measure affordability dimension of SME owners in Thailand was higher than score in Indonesia. This indicated that respondents in Thailand generally had higher capability in accessing financing from banking sector if compared with condition in Indonesia.

Other than three dimensions mentioned above, this research aimed to analyze role of financing alternative for SME owners. The argument to include financing service provided by non-bank association or organization considered socio-cultural factor of Asian society with high collectivity needs. There were four indicators applied to measure financing alternative through friends/family, cooperatives and banking services. In this case, the researcher will observe bank's relative position as SME financing provider towards other non-bank institutions or organizations.

**Table 5.9 Type of Financing Alternatives**

1.	I have friend/family who has capacity to lend money for my business when needed.
2.	I rather lend money to friend/family than Bank
3.	I rather lend money to Cooperative than Bank
4.	I rather to use pawn/leasing service than Bank

The survey result demonstrated following data:

**Table 5.10 Financing Alternatives**

Statement	Inappropriate		Neutral		Appropriate		Mean	
	INA	THA	INA	THA	INA	THA	INA	THA
I have friend/family who has capacity to lend money for my business when needed.	35.0%	48.3%	1.7%	18.3%	63.3%	33.3%	3.2500	2.5833
I rather lend money to friend/family than Bank	45.0%	58.3%	8.3%	11.7%	46.7%	30%	3.0000	2.3333
I rather lend money to Cooperative than Bank	46.7%	93.3%	20.0%	3.3%	33.3%	3.3%	2.7167	1.2333
I rather to use pawn/leasing service than Bank	53.3%	83.3%	18.3%	13.3%	28.3%	3.3%	2.6833	1.4333

Source: Primary Data, 2015

Notes: INA = Indonesia; THA = Thailand

From Table 5.10, we can infer that distribution of respondents' answers was generally even between very not agree, not agree, neutral, agree and very agree. This was indicated by less dominant percentage that was accumulated in certain category. Total respondents in Thailand were very low in questions related to cooperatives and leasing was due to both financial institutions were not recognized in Thailand. As mentioned before, SME financing demand was influenced by bank financial institution where Thailand Government actively encouraged growth of the banks. In Thailand, the number of banks was relatively less than the number of banks operated in Indonesia. As of 2014, there were 16 commercial banks operated in Thailand, where 14 banks were commercial banks and 2 were retail banks. On the other hand, there were 78 national commercial banks as of 2015 who served entire SMEs in Indonesia not including Rural Banks and Regional Banks.

The interesting result that could be derived from Table 5.10 was that SME respondents in Indonesia significantly admitted availability of financing alternatives by means of friends and family. Evident of social support that included financial realm looked more viscous in Indonesia than Thailand, apart from common understanding that financial support from social groups was generally took place in ASEAN countries. SME respondents in Indonesia had better readiness (46.7%) to take advantage from informal financial services by friends and family if compared with SME respondents in Thailand (30%). Reasons of preferring friends and family to fulfill

SME financing needs were as follows: (1) easy documents requirement, (2) perspective of viewing bank's interest as usury or riba, (3) more flexible installment period, (4) no collateral required, (5) personal relationship, and (6) not bankable.

According to result illustrated by Chart 5.10, Bank was seen as financial institution with capacity to fulfill SME financing. This strategic position would only be "disturbed" by existence of friends and family as informal financial service provider. Reasons for choosing bank as financing service provider were: (1) legal assurance, (2) professional financial management, (3) lower interest rate (if compared with cooperatives and leasing), (4) unlimited fund, (5) collateral is not detained (if compared with leasing), and (6) no other alternatives.

However, the mean score for each indicator in these two countries suggest that Indonesia has higher mean score than Thailand. This indicated that SME owners in Indonesia were more often using financing alternatives than SME owners in Thailand despite less significant numbers. Thus, some of SME owners in Indonesia still relied on financing from Bank whilst some were using other financing alternatives, such as borrowing fund from friends, family, cooperatives and Pegadaian (pawn institution).

Besides financing alternatives, this research also proposed dimension of trust aspect in determining financing access determinant. Trust referred to consequence of asymmetric information. Trust aspect is measured by two indicators, as follows:

**Table 5.11 Trust Measurement Indicators**

No.	Stateme
1.	I develop harmonious relationship with (staff of) Bank operated around my house / business location
2.	Bank's staff assists me in fulfilling requirement on my business loan application

From the survey, we generated following result:

**Table 5.12 Trust**

Statement	Inappropriate		Neutral		Appropriate		Mean	
	INA	THA	INA	THA	INA	THA	INA	THA
I develop harmonious relationship with (staff of) Bank operated around my house/business	13.3%	13.3%	6.7%	18.3%	80.0%	68.3%	3.7500	3.9000
Bank's staff assists me in fulfilling requirement on my business loan application	16.7%	6.7%	3.3%	18.3%	80.0%	75.0%	3.5833	3.9333

Source: Primary Data, 2015

Survey result above explained that majority of the respondents had harmonious relationship with banking staff and assumed the staffs to be helpful in loan application submission process. There was an only less than 20% respondent who did not develop harmonious relationship or assumed the staffs to be helpful in loan application submission process. This result applied both for SME respondents in Indonesia and Thailand. According to interview with banking party in Indonesia, trust issue often arose due to SME business management process, which was evaluated to be less professional. This occurred unavailability of accurate information to assess SME credit risk by the Bank. To overcome this trust gap, the Bank had implemented risk mitigation by collecting rigorous credit data. Therefore, above result was being consistent where the respondents had harmonious relationship with bank's staffs. On the other hand, according to interview with bank party in Thailand, we acquired information that there was no trust issue due to Banks in Thailand accounted information from the Bank's book as primary document. This principal difference demonstrated that bank had different perspective towards SME business risk assessment in two countries. Indonesia assessed business sustainability while Thailand assessed business liquidity. Basis of the assessment was consequences of Government's policy in each country. Indonesian Government viewed SME sector as a business sector that had to be preserved for its sustainability, meanwhile, Thailand regarded MSE as a sector whose operational capacity had to be maintained. Difference between both policies was indicated by its practical derivative where Indonesian Government struggled with entire SME's management dimension enforcement (production, marketing, finance, human capital aspects) while Thailand put greater focus on SME's financial dimension. Finally, SME financing policy in Thailand tended to be more effective than Indonesia. Next chapter will explain implication of research finding against SME financing policy in Indonesia.

### 5.3 Implications to SME Financing Policy in Indonesia

This research examined regulations related to SME financing policy issued by Indonesian Government. Some of the legal products issued by the Government with regard to SME financing aspect extension were as follows:

1. Law Number 9 Year 1995 regarding Small Enterprise. This is an overarching law that governed small and medium enterprises, especially related to capacity building and development, financing and guarantee for small business financing.

2. Presidential Instruction Number 3 Year 2006 on Improvement on Investment Climate. One of the objectives of this policy package was to empower Small and Medium Enterprises and Cooperatives (SMEC). The SMEC empowerment was done through following methods:

- a) Improving regulations related to SME business license,
- b) Developing consultancy service for Small and Medium Enterprises (SME), and
- c) Expanding SMEC access to financial resource and other productive resources, and
- d) Strengthening Major Enterprise and SME partnership

Essentially, principal of SMEC empowerment policy laid upon policy to extend SMEC's access to financial provisions and other productive resources. This was done by implementing investment loan development scheme for SMEC and land certification program for SMEC to expand their access to financing.

3. Presidential Instruction Number 6 Year 2007 on Real Sector Development Acceleration and Micro, Small and Medium Ssector Empowerment. This policy was a follow-up of the policy package declared under Presidential Instruction Number 3 Year 2006 that was mostly related to SMEC empowerment. This policy package aimed to accelerate real sector development and MSME empowerment implemented in four policies. These are: (a) extended access to financing for SMEs, (b) entrepreneurship and human capital development, (c) market opportunity development for SME products, and (d) SME policy reform. In particular, Indonesia applied below policies to extend SME access to financing:

1) Upgrade the institutional capacity and SME access to financing through several programs: (a) developing investment loan scheme for SME, (b) improving effectiveness of financial consultancy for SMEs,

2) Create a robust credit insurance system for SME through several programs: (a) strengthen credit collateral for SME by providing reliable and simple certification process, (b) intensify the role of loan insurance institution for SME, (c) develop innovative financial instruments for SME

3) Optimize non-banking funds for SME empowerment through several programs: (a) improve effectiveness of revolving fund from the state budget for SME financing, (b) restructure the use of funds from state-owned enterprises.

4. Implementation of People's Credit via Memorandum of Understanding (MOU) between related ministries, financing insurance companies and banks. The MOU mandated several government's financing insurance companies to provide a loan guarantee to banks that channeled People's Credit. People's Credit program was provided to MSME and Cooperatives that were financially feasible but not bankable business. This loan scheme was offered to SMEC that operated in agriculture, fisheries and marine, retail, forestry and saving and loans financial service. Based on the MoU, the government issued Finance Minister Regulation Number 135 Year 2008 on People's Credit Insurance Facility whereby below were ordered:

a) Micro, Small, Medium Enterprise and Cooperatives (SMEC) Loan/Financing Insurance Program.

b) Financing for SMEC in the form of working capital and investment fund supported with insurance facility for productive business. The loan/financing disbursed to SMEC may be provided as working capital loan or investment loan with following provisions: (1) for total loans up to USD 397.17 the financing margin charged is a maximum of 24% effective rate per annum, and (2) for total loans between USD 397.17 to USD 39,717 the financing margin charged is a maximum of 16% per annum.

c) Eligible SMECs were those that had never been granted loans/financing from banking sector nor by any government's program

d) The amount paid to financing insurance companies was regulated at 1.5% per

annum and paid annually, calculated based on financing loans from banks with following requirements: (1) it was calculated from loan plafond for working capital loans, and (2) it was calculated from loans realization for investment loans.

e) Total loans to be guaranteed by the financing insurance company was seventy per cent (70%), while remaining thirty per cent (30%) was covered by the provider bank.

f) Loans/financing insurance maturity was adjusted with maturity of People's Credit/Financing provided by banks unless the Government stated otherwise.

In its progress, PMK Number 135/PMK.05/2008 had been revised several times with provisions such as below:

a) Criteria for prospective SMECs that were eligible to receive People's Credit insurance facility was renewed to: (1) new debtor that were never been granted loans from the government as proven by result of Debtor Information System during the loan application submission, and (2) debtors that had received consumer loans, such as mortgage, vehicle loans, credit card and other credits that were eligible to be granted People's Credit.

b) Loan interest or financing margin rate were changed into: (1) a maximum financing margin of 22% effective rate per annum for total loans up to USD 397.17 unless stated otherwise by the finance minister upon recommendation from a committee, and (2) f a maximum financing margin of 14% effective rate per annum for total loans between USD 397.12 to USD 39,717 unless stated otherwise by the Finance Minister after recommendation from policy committee

c) The amount of insurance service fee paid to the financing insurance companies was regulated at 3.25% per annum, paid annually and calculated from financing loan with previous stated criteria.

d) Percentage of total loans or financing was divided between the financing insurance company (70%) and other appointed organizations (30%).

Other than Finance Minister Regulation Number 135 Year 2008 on People's Credit Insurance Facility and its amendment, the Government via Coordinator Ministry of Economics also issued several regulations that support People's Credit program implementation. These regulations were issued to improve below issues:

1) The implementation of loans/financing insurance for SMECs in the form of actionable working plans, and strategic initiatives.

2) Appointed banks to provide People's Credit that involved regional banks. There were 13 regional banks (BPD) obligated to channel the credit. These were: (1) Jakarta Provincial Bank, (2) Bank Nagari (Bali), (3) West Java (Banten) Regional Bank, (4) Central Java Regional Bank, (5) Jogjakarta Regional Bank, (6) East Java Regional Bank, (7) Western Southeast Nusa Regional Bank, (8) West Kalimantan Regional Bank, (9) South Kalimantan Regional Bank, (10) Central Kalimantan Regional Bank, (11) North Sulawesi Regional Bank, (12) Maluku Regional Bank, and (13) Papua Regional Bank

3) Appointed financing insurance companies with those that were operated in selected regions. These were that of East Java and Bali operational areas. (6) Appointed commercial

banks including Shari'a banks. The total banks amounted to 33 banks: 2 sharia commercial bank, 26 Regional Banks, and five conventional commercial state banks.

4) Program planning, monitoring, evaluation and supervision of SMEC financing provisions. These were related to:

1) The criteria for micro enterprise refers to individual productive business and or individual enterprise that fulfills following criteria: (a) assets with a maximum value of USD 3,972 excluding land and building for business, or (2) annual sales of a maximum USD 23,830

2) Small enterprise refers to autonomous productive economic business, operated by individual or enterprise which is not part of company owned, dominated or part of Medium and Major Enterprises either directly or indirectly. Small Enterprise has to meet following criteria: (a) assets worths more than USD 3,972 excluding land and building for business, or (b) annual sales of between USD 23,830 and USD 198,586

3) Medium enterprise refers to autonomous productive economic business, operated by individual or enterprise which is not part of company owned, dominated or part of Medium and Major Enterprises either directly or indirectly with net total assets or annual sales record fulfilling following criteria: (a) assets worths between USD 39,717 and USD 794,344 excluding land and building or (b) annual sales between USD 198,586 and USD 3,971,721.

4) Cooperatives refer to enterprises whose members are individual or Cooperatives legal entity that operated its activity based on cooperatives principle.

5) Productive business refers to business to produce products and/or services to generate added value and increase income for the business owners

6) Feasible business refers to business owned by prospective debtors that generated profit to pay interest/margin and fully paid entire Loans/Financing principal under certain period and still able to generate profit to ensure business sustainability.

7) Not bankable refers to a situation where SMEC was failed to (1) repay loans/financing requirement applied by banks, (2) meet collateral requirement and (3) fulfil loans/financing requirement as stipulated by banks.

8) People's Credit program schemes were varied with possibilities to more collaborative parties. These schemes were: Micro, Retail, and Linkage programs. The Micro People's Credit was a loan up USD 397.17 with 24% per annum interest/financing. Retail People's Credit was a loan above USD 397.17 with 16% per annum maximum interest. Linkage People's Credit refers to loans/financing disbursement with a maximum of USD 397.17 or total loans/financing amounted to between USD 397.17 to USD 1,192 to be disbursed via linkage with cooperatives, business groups, rural banks, or other microfinance institutions.

9) There were three People's Credit disbursement schemes. These were Direct Scheme, Executing Scheme and Channeling Scheme.

a) Direct Scheme. In this scheme, Bank performed individual assessment on People's Credit debtor. If the prospective debtor was assessed feasible and approved by banks, the People's Credit Debtor would sign Loan Agreement. With regard to the insurance, Bank would propose insurance application to Insurance Company maximum 70% (seventy per cent) from loans plafond provided and the Insurance Company will later issue Insurance Certificate.

b) Executing Scheme. The regulation in this scheme includes: (1) Linkage Institution proposes Loans/Financing application to banks. The banks verified Debtor Information System and feasibility study. If declared feasible, banks would grant loans/financing approval by signing Loans/Financing Agreement with Linkage Institution, (2) banks proposed loans/financing insurance proposal to Insurance Company. The Insurance Company would later issue Insurance Certificate under the name of the Linkage Institution, (3) Linkage Institution disbursed loans/financing received by banks to SMEC debtors from Linkage Institution, and (3) SMEC Debtors paid loans/financing payment to Linkage Institution.

c) Channeling Scheme. Regulation in this scheme included: (1) To acquire loans/financing from banks, SMEC granted attorney to Linkage Institution management, for (a) proposing loans to banks, (b) guaranteeing collateral to banks, (2) Linkage Institution representing SMEC proposed loan application to banks, (3) Provider Bank performed Debtor Information System verification and feasibility study. If declared feasible, the banks would grant loans/financing approval.

5. The source for financing. The Law Number 20 Year 2008 on Micro, Small and Medium Enterprises required the government to increase source of financing for Micro and Small Enterprises by means of: (a) source from banking and non-banking financial institution, (b) joint ventures institution development, and (c) receivables transaction institutionalization.

6. Business licensing for SMECs. Government Regulation Number 98 Year 2014 on Micro and Small Enterprises Business License. The micro and small enterprises were in need of business license as it encouraged regional economics growth through empowering micro and small enterprises.

The Central Bank also issued several regulations aiming to support SME's access to financial institution, especially banking institution. These regulations aimed at supporting integrated partnership and cooperatives development program. The development programs include technical assistance related to: (1) research, (2) training, (3) information support, and or (4) business facility. In its implementation, commercial banks were required to provide training and capacity building programs for Micro, Small and Medium enterprise

#### **i. Implementation of People's Credit Program**

People's Credit program is intended as the government's strategy to support SMEC's financing access by providing financing insurance facility. Implementation of the program involved 10 ministries, 4 insurance institutions, and 33 banks. In its implementation, according to data released by People's Credit Committee, as of November 2014, 33 People's Credit Program Bank Providers had disbursed more than USD 13 trillion fund, with number of total debtors amounted to 12,346,057 with 3.9% NPL. People's Credit Disbursement Realization and NPL of State Commercial Banks were highlighted in Table 5.13 below:

**Table 5.13 People's Credit Program Realization and NPL of State Commercial Banks**

No.	Bank	Number of Debtor	Average Loans (USD)	NPL (%)
1.	Indonesian State Bank	217,086	5,663	3.3
2.	People's Bank	11,443,505	14,623	4.7
3.	Bank Mandiri	385,931	3,598	3.4
4.	State Deposit bank	25,255	14,433	12.9
5.	Indonesian Cooperatives Bank	12,139	11,868	5.5
6.	Bank Syariah Mandiri	59,861	5,171	17.2
7.	Indonesian State Syariah Bank	1,424	17,833	4.6
8.	Regional Development Bank	200,856	6,323	9.5
		12,346,057	79,512	3.9

Source:

[http://komite-kur.com/article-103-sebaran penyaluran KUR as of Nov 2007-2014 Period](http://komite-kur.com/article-103-sebaran%20penyaluran%20KUR%20as%20of%20Nov%202007-2014%20Period)

## ii. SME Financing Access Expanding Issues in Indonesia

The Government's policy of providing technical support alongside financing provision was followed by an increase in loan disbursement to SMEC with percentage of 5% in 2015, 10% in 2016, 15% in 2017, and 20% in 2018. In its implementation, commercial banks (both conventional and sharia) experienced several issues in providing financing to SME such as:

1. Limited information on debtors' credit risk, in particular that related to feasibility and repayment capability which was reflected by SME's financial statements
2. High overhead cost due to banks' service that were done manually (without readily available business data, loan staff had to do interviews and observations)
3. Limited banking products to fulfill various and unique SME financing needs
4. Limited banks' outreach to cover widely spread area
5. Limited loan staff expertise and availability

On the other hand, SMEs also faced issues that obstructed their access to financing. Some of these issues were as follows:

1. Lack of managerial skills and data management. This was occurred due to limitation of SME's capability in preparing financial statements. Banks required financial statements to assess loan applications. In this regards, Indonesian banks put financial statements as the primary requirement in loan application. In contrast to the situation in Thailand, bank book is not a main requirement for Indonesian banks. This indicated that loan application might be proposed by candidate who previously did not have account book. Account book registration process was done simultaneously with loan disbursement process (profitability base towards sustainability

base). Meanwhile, in Thailand, Bank Book became the main document that was owned by SME owners minimum 6 months as primary requirement (liquidity base). Debtor's identity was verified to credit bureau, but the credit decision was principally referred to the bank book.

2. Lack of legal business license. This was occurred as the impact of SME's inability to acquire business license. Regardless of the specific Presidential Decree to ease the business license for SMEs, this remains unsolved.

3. SME is a unique institution with variety of business sectors whose payment scheme is different.

4. Wide-spread SME location, especially outside the area in which banks operated.

5. SME required different personal approach than other institutions.

To overcome this issue, the Central Bank implemented collateral-based policy. Despite the policy was not feasible to be fully implemented due to collateral limit occurred as the impact of risk mitigation performed by banks. The Central Bank had undertaken the following initiatives:

1. The Central Bank provided financial trainings including to prepare financial reports. The Central Bank also developed an application accessible via smartphone.

2. The Central Bank formed a cooperation with regional governments as well as related ministries to support ease of access to business licensing provision.

3. The Central Banks prepared specific loans scheme according to financing needs of each SME in several sectors.

4. The Central Bank initiated personal approach by using ICT via Digital Finance Institution

### **SME Financing Access Dimension: Comparative Study of Indonesia and Thailand**

This research analyzes SME's access to financing not only from banks perspective, but also SMEs'. This indicated that the research also discusses SME financing access from demand and supply sides. SME financing access dimension was focused on three aspects (from SME and bank perspectives), namely: (1) Accessibility (Physical Access), (2) Eligibility (Capability and Feasibility related to information or knowledge) and (3) Affordability. The unique findings of the research were as follows:

1. Accessibility dimension in both countries were influenced by geographical and cultural conditions.

a. In Indonesia, Accessibility issues was managed by applying proactive programs. In People' Bank, especially, a role of *Mantri* was created. Appointment of the *Mantri* was related to cultural and custom background to disburse SME to remote area. *Mantri* held different role with staffs in banks where in Thailand, *Mantri* acted to advise related to the financing but not taking decision on the financing application. Importance role of culture was stronger considering various and strong culture value in Indonesia.

b. In Thailand, Accesibility issue was solved through proactive program as socialization. Bank's staff in Thailand acted like the *Mantri* without necessity to appoint local

leaders to expand coverage. This was enabled due to homogeneous culture of Thailand citizen and geographical condition in Thailand.

## 2. Eligibility Dimension as result of Government's Policy.

a. Bank of Thailand (Central Bank) granted 1 trillion Baht to be channelled by all banks under the management of Government Saving Bank (GSB). Within 2 months, the fund had been well-absorbed. In addition, the Government also has a policy that GSB as Government Bank is prohibited to refuse financing application. However, the policy does not apply to private banks. For example, Kung Thai Bank Thailand, within the last two years, the Bank has internal policy not to provide loans for SMEs who were operated in two sectors, construction sector and a sector that manufacutres paddy into rice. This was occurred due to water crisis in Thailand so that the Bank failed to perform risk mitigation in both industries.

b. Loan application submission in Thailand was easier where the submission was done via bank's staff at Branch level to be proposed to higher bank's division (central bank) where the loan application was approved. The Bank's staff does not only receive and collect the data. Banks in Thailand did not dominantly analyze loans application limit (IT base). If the financing loan was rejected, this would influence result of the bank's performance or other more extreme case for the bank's staff. Therefore, every staff was regulated to provide coaching for loan applicants to approve the loan application.

## **CHAPTER 6 - CONCLUSION AND SUGGESTION**

### **6.1. Conclusion**

Based on the research result as explained in previous chapter, the conclusions were:

1. SMEs in Indonesia and Thailand did not experience financing access constraint from accessibility, eligibility and affordability dimensions.

2. Asymmetric information that is viewed as a influencing factor that constrained financing access is not found in Thailand case. Conversely, Indonesian case demonstrated excess from asymmetric information despite trust aspect was not being constraint to SME financing access in Indonesia.

3. Bank still becomes the most preferred alternative as SME financing provider. Both in Indonesia and Thailand, family and friends became financing alternative preferred by SME.

4. In Indonesia, SME Policy was based on business sustainability while in Thailand, it was based on business liquidity.

### **6.2. Suggestion**

Following suggestions may be proposed to improve SME financing policy in Indonesia:

1. SME financing policy formulation shall be done based on more accurate data.

2. The Government shall adjust policy direction to be more effective in expanding SME financing access.

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