Does Financial Inclusion Important in MSMEs Financing in Indonesia?

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Does Financial Inclusion Important in MSMEs Financing in Indonesia? Analysis Using Dimension Bank as Mediation.

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Abstract

Empowerment of MSMEs can be one of the things that drives economic growth. Financial inclusion is present as one way to overcome the problem of financing UMKM. This study aims to see the role of banks as an effort to achieve financial inclusion. The results of the study show that all the variables are significant positive, in the efforts to finance MSMEs in Indonesia, which means that banks play an important role in channeling funds to MSMEs, so that inclusion runs well.

Keyword: Inclusive Financing, Financial Intermediation, Bank Dimention, MSMEs

Introduction

Every person in the country has the rights to have access to financial services in convenient and informative ways as well as on-time at affordable cost. In this context, access to the services is the basic fundamental to the economic development (Economies, 2012) . This backbone further is mentioned as inclusive financing. Inclusive financing is all efforts which aim to eliminate all forms of barriers to access of the people in utilizing financial services (Bank Indonesia, 2014). Inclusive financing strives to improve access to financial services for both individuals also micro, small and medium-sized enterprises.

Many people in developing countries have limited access to financial services (Economies, 2012) whereas this basic fundamental is vital to strengthen financial sectors and domestic resource mobilization. Thus, it can make a sufficient contribution to social and economic development. Survey of (Bank Indonesia, 2011) indicated that the level of Indonesian households who have access to formal financial institutions is only 49 percent and the level of Indonesian society who are associated with banks is still low at only about 48 percent where banking services are still centralized in Java. Meanwhile, only 20% of Indonesian adults have accounts in formal financial institutions, in this case, banks, those are lower than Malaysia 66%, China 64%, India 35%, and Philippines 25%. Similarly, the financing of economic activities for Micro, Small and Medium Enterprises (MSMEs) is also considered not significant with the credit share at about 20% or around the range of Rp 612 trillion. It is not surprising that the Deposit to GDP ratio is still below

50% and the Loan to GDP ratio is still around 35%, far below average compared to countries in Asia Pacific region (Bank Indonesia, 2014).

Meanwhile, the financial sector, which is part of the country's economic supports, has an important role to play in promoting the economic activities of the poor so that they can continue to do their activities (World bank 2010). Here, Micro, Small and Medium Enterprises (MSMEs) have an important and strategic role in national economic development (Bank Indonesia, 2015).

Some positive contributions of MSMEs cannot be underestimated, namely:

a. The backbone of national economy as it is the dominant business population (99.9%).
b. Contribution of MSMEs to GDP is 60.34% with annual growth rate 6.4%.

Not only that, but MSMEs have also helped the labor which experienced growth from 96.99 percent to 97.22 percent in the last five years. Thus, the Indonesian Chamber of Commerce and Industry assessed that MSMEs can increase people's income and are considered to have a strategic role in fighting poverty and unemployment.

Unfortunately, MSMEs here still face obstacles, especially in access to banking, which causes about 60-70 percent of MSMEs have not gained access or bank financing. Some obstacles faced by MSMEs are (Bank Indonesia, 2014):

a. The coordination between stakeholders of MSME is still not integrated. Government agencies, educational institutions, financial institutions, and entrepreneurs' associations run independently.
b. Incomplete of supporting policies and regulations in the funding aspect for MSMEs.
c. There are still geographical barriers where not many banks are able to reach urban areas.
d. There are still limited facilities and infrastructure to support access to technology. Most MSMEs use technology that is still simple.
e. The operational procedures of banks are still complex, including lack of provision of simple credit services and high of bank administrative costs
f. Lack of education in understanding of finance and banking.
g. Still lack of public trust in financial institutions.

Inclusive financing is a national strategy to boost economic growth through the stability of the national financial system, especially if it is used to empower MSMEs that contribute substantially to the country. Therefore, this study aims to create the implementation model of inclusive financing for MSMEs empowerment in Indonesia to create stability of the national financial system.

Literature Review

Inclusive Financing

According to Bank Indonesia, in National Strategy for Inclusive Financing, inclusive financing is defined as the right of every individual to have access to a full range of quality financial services in a timely, convenient, informed manner and at affordable cost in full respect of his/her dignity. Financial services are provided to all segments of the society, with a particular attention to low-income poor, productive poor, migrant workers and people living in remote areas (Bank Indonesia, 2014).

An alternative definition of financial inclusion is the perception which views inclusion as a progression inculcating some elements of the hierarchy of needs with higher levels of financial inclusion achieved as more needs are fulfilled. This perception views Inclusive financing as a "hierarchy of financial needs" syndrome that starts by promoting non-cash methods of bill payment, advancing business through borrowing and fund investment (Adiandari & Winata, 2018). The hierarchy of needs as presented in Figure 2.1 begins with the most basic foundational needs such as securing a bank account for savings, making payment for transaction physical/electronic bill payment, and moving to more complex needs like borrowing, fund investment, and purchasing an insurance policy through a bank.

It is about the delivery of banking services such as savings, credit, insurance, payment, and pension, at an affordable cost to vast sections of the economy, especially the low-income segment or disadvantaged sectors (Ahmed, 2006) as presented in Figure 2.2. (Martinez, 2011) identified financial access as an important policy tool employed by the government infighting and stimulating growth given its ability to facilitate efficient allocation of productive resources, thus reducing the cost of capital. Financial inclusion is a concept that portrays the state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively (Leyshon & Thrift, 1995). Financial inclusion according to (Adunda & Kalunda, 2012) is the process of availing an array of required financial services at fair price, at the right place, form, and time without any form of discrimination to all members of the society.

Figure 1. Essential Contents of Inclusive Financing

Financial Intermediary Facilities and Distribution Channels

Financial intermediary facilities and distribution channels are one of the pillars in financial inclusion issued by Bank Indonesia. Financial intermediary facilities and distribution channels aim to expand the reach of financial services to meet the needs of various community groups. This is to see the importance of financial intermediary facilities and distribution channels which emphasizes efforts to increase financial institution awareness of potential community groups to obtain financial services.

In the booklet of financial inclusion issued by (Bank Indonesia, 2014), the indicators of financial intermediary facilities and distribution channels, include:

a. Facilitating an intermediary forum by bringing together financial institutions with productive (unbanked) groups to address the asymmetric information problem.

b. Increasing cooperation between financial institutions to increase the business scale.

c. Exploring various possibilities of products, services, and innovative distribution channels while still paying attention to the principle of prudence. (Sharma Jagtap, 2019) MSME sector in emerging economies also presents a glaring opportunity for the banks as there is a potential for high growth in bank's Return on Equity (ROE) in MSME segment.

H1= Financial intermediary facilities and distribution channels relate positively to MSMEs empowerment in Indonesia.

Consumer Protection

Consumer protection is a matter of financial institution's responsibility for losses as a result of financial institutions (Ristanti & Putri Ariana, 2016). Consumer protection aims to provide a sense of se to the public in interacting with financial institutions and has the principles of transparency, fair treatment, reliability, confidentiality, and security of consumer data/information, handling complaints, and settling consumer disputes in a simple, fast, and affordable manner.

In the booklet of financial inclusion issued by (Bank Indonesia, 2014), the indicators of consumer protection, include:

a. Issuance of Consumer Protection Regulations for the Financial Services Sector and Payment System.

b. Establishment of Alternative Dispute Resolution Institutions as a forum for dispute resolution between consumers and financial institutions in their respective sectors that meet the principles of accessibility, independence, fairness, efficiency and effectiveness and are monitored by regulators.

c. Establishing the Internal Dispute Resolution (IDR) standard.

d. Developing the Financial Customer Care (FCC) system.

e. Provision of consultancy services and facilitation of the use of payment system products.

f. Market Conduct Activities.

H2= Consumer protection relates positively to MSMEs empowerment in Indonesia.

Micro, Small, Medium Enterprises (MSMEs)

Micro, Small and Medium Enterprises (MSMEs) have different definitions in each literature according to some agencies or institutions even the law.

In accordance with Act No. 20 of 2008 on Micro, Small and Medium Enterprises, MSMEs are defined as follows:

a. A micro enterprise is a productive enterprise owned by an individual and/or an individual business entity that meets the Micro Business criteria as stipulated in this Act.

b. Small-scale business is a stand-alone productive economic enterprise undertaken by an individual or a business entity that is not a subsidiary or not a branch of a company owned, controlled, or becomes part of either directly or indirectly from a Medium-Sized Enterprises or Large Business criteria for small-scale enterprises as referred to in this Act.

c. Medium-scale business is a stand-alone productive economic enterprise, conducted by an individual or a business entity which is not a subsidiary or branch of a company owned,

controlled, or becomes part directly or indirectly with a Small Business or a Large Business with a net or annual sales proceeds as provided in this Act.
Statistics Indonesia (BPS) defines MSME based on labor quantity that is a home industry which has a workforce of 1 to 4 people, small business has a workforce of 5 to 19 people, while medium-sized enterprises have a workforce of 20 up to 99 people (Statistics Indonesia, 2011).

In addition, based on aspects of commodities produced, MSMEs also have its own characteristics, among others:

a. The quality is not standard yet. Because most MSMEs do not yet have an adequate technological capability. The resulting product is usually in the form of handmade so that the quality standards vary.
b. The design of the product is limited. This is triggered by limited knowledge and experience about the product. The majority of MSMEs work based on order, not many who dare to try to create new designs.
c. The type of product is limited. Usually, MSMEs only produce some kind of product. If there is a demand for a new model, MSME is difficult to fulfill. Even if they received the order, it will take a long time.
d. Capacity and price list of its products is limited. With the difficulty determining the capacity and the price of the product makes the consumer difficult.
e. Less standardized raw materials. Because raw materials are obtained from different sources.
f. Continuity of the product is not guaranteed and less perfect. Because production is not regularly.

According to Adrian (2019) One way that can be done to increase the value of exports is to improve the empowerment of products Micro, Small, Medium Enterprises. MSMEs is considered to be a solution in improving the economy in Indonesia.
Furthermore, for hypotheses 3 and 4, the dimensional bank mediates the relationship between financial intermediary facilities and consumer protection distribution channels to the empowerment of MSMEs in Indonesia. while hypothesis 5 states that the bank dimension has a positive effect on the empowerment of MSMEs in Indonesia.

Research Method

In this study, the population refers to the collection of people that the study is focusing on. The main issue of this study is MSMEs in Indonesia. The country situation is indicated that the industries are still centralized in Java because most entrepreneurs choose Java, especially Jakarta, as the strategic location to invest and start business (Mardanugraha et al., 2015). Thus, this study is carried out in Jakarta. In this study, researcher used Micro, Small, Medium-Sized Enterprises as the population of the study. Owners of Micro, Small, Medium-Sized Enterprises in Jakarta is a good population to be measured because they are the main actors that know what exactly the disturbance and the obstacles in doing this business regarding problems face in inclusive financing, in which related to the purpose of the study. Based on type and source of data, researcher used primary data and secondary data which are presented.

Result

Structural Model Evaluation

The evaluation of the structural model (inner model) aims to predict the relationship between variables by seeing how much the variance can be explained and knowing the significant Pvalue (Latan dan Ghozali, 2016).Thus through the evaluation of the structural model can answer hypothesis testing in this study, namely hypotheses 1, 2 and 3, 4. As for hypothesis 5 (the effect of mediation) will be tested through mediation testing in the next analysis.

Table 1. Goodnes of Fit Model Structural

Criteria	Parameter
Average path coefficient (APC)	0.376/ P<0.001
Average R-squared (ARS)	0.746/ P<0.001
Average adjusted R-squared (AARS)	0.744/ P<0.001
Average block VIF (AVIF)	4.801
Average full collinearity VIF (AFVIF)	3.296
Tenenhaus GoF (GoF)	0.726
Sympson's paradox ratio (SPR)	1.000
R-squared contribution ratio (RSCR)	1.000
Statistical suppression ratio (SSR)	1.000

Sources: Primary data is processed (2020)

Based on Table 2. above, it can be seen that this research model has a good fit, where the P value for APC <0.001, ARS and AAR <0.001, with an APC value = 0.376, ARS value = 0.746 and AARS value = 0.744. Likewise, the resulting AVIF and AFVIF values are <3.3, which means that there is no multicolonierity problem between indicators and between exogenous variables. The resulting GoF is 0.726> 0.1 which means that the fit model is very good. For SPR and RSCR it produces a value equal to 1 while SSR is with a value of 1.000 > 0.7 which means there is no causality problem in the model.

In this study, the mediation test used the Variance Accounted For (VAF) method. Hair et al. (2013) According to the mediation testing procedure with the VAF method, it is as follows:
1. Testing the direct effect of exogenous variables on endogenous without including the mediating variable.
2. If the direct effect above is significant, then test the indirect effect of exogenous variables on endogenous by including the mediating variable.
3. If the indirect effect above is significant, then calculate the value of the VAF and determine the mediation effect with the following criteria:
a. VAF> 80% means that there is full mediation.
b. 20% <VAF <80% means that there is partial mediation.
c. VAF <20% means no mediating effect in the model. To calculate the Variance Accounted For (VAF) it is calculated by dividing the indirect effect by the total effect (direct effect plus indirect effect).

The next step is to calculate the VAF value which can be presented in Table 2.

Description	Path Coefisien
Indirect effect	0.319

Direct effect	0.038
Total effect	0.245
VAF (indirect effect/total effect)	0.602

Sources: Primary data is processed (2020)

Based on Table 2, the results of the VAF value are 0.602 or 60,2%. This value can be seen as close 20% <VAF <80% means that there is partial mediation so that it shows BD as a partial mediator of the indirect effect of FI on BD. These results support or accept Hypothesis 3 which states that bank dimention can mediate the effect of financial intermediation on MSMEs Empowering. These findings indicate that the empowerment of MSMEs is not only influenced by financial intermediation but also customer protection, so that UMKM empowerment can run well.

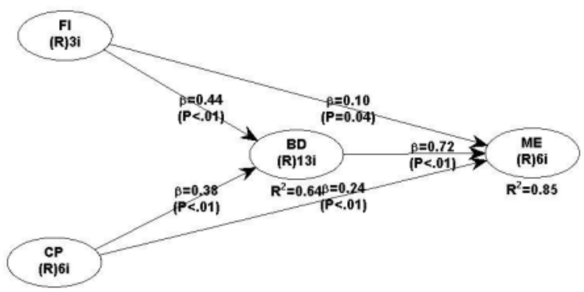

Figure 2 : Full Model Research

Conclusion

The principle of financial inclusion is to expand access to information technology for the public, especially umkm actors, to achieve a sound financial system (Abubakar & Handayani, 2019).

Adiandari & Winata (2018) MSMEs is formed and materialized with a good performance if financing from banks can accelerate the financial inclusion system. The results showed that all independent variables, namely financial intermediation and customer protection, proved that in umkm financing the elements of the bank as intermediaries for umkm actors could accelerate umkm performance as well as customer protection, which is one of the important things in realizing financial inclusion. The results also show that the bank dimensions play an important role in mediating the relationship between the independent and dependent variables, which is either directly or indirectly proven if bank financing is optimal for the sustainability of umkm along with the implementation of good financial inclusion.

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