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INDONESIAN SMALL BUSINESSES AND THEIR ACCESS TO FINANCING

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ABSTRACT
As in many other developing countries, in Indonesia small size businesses are very important. Their number reached 99% of the number of companies and accounted for 92% of job creation. However, many of them, especially from the micro and small enterprises (MSEs) category, have difficulties to grow or expand their production capacity, or even to sustain, including limited access to finance from formal sources like bank and other non-bank financial institutions. This paper presents the results of a study on the financing of micro, small and medium enterprises (MSMEs) in Indonesia. The approach used in this study is descriptive and analytical in nature and is based on secondary data collected from various official/government sources on their main obstacles, the annual growth of loans granted to these enterprises from commercial banks, and their main financial sources. This paper presents three important findings from the study: (i) limited funds is their main constraint, especially from the MSEs category, (ii) the majority of MSEs depend on own money or loans from informal sources, and (iii) for those who have never borrowed money from banks, lack of collateral is the main reason (except not interested).

Keyword: MSMEs, MSEs, Main constraints, KUR, Commercial banks, Financial service providers.

1.INTRODUCTION
As in many other developing countries, micro, small and medium enterprises (MSMEs) play a very important role in economic development in Indonesia. These enterprises are the main drivers of national economic activities with their contribution to the formation of Indonesia's gross domestic product above 50%. They are very numerous, reaching 99% of the number of companies of all sizes and accounting to 92% of job creation in Indonesia. Even MSMEs, especially micro and small enterprises (MSEs), are the main source of employment opportunities for low skilled workers and business opportunities for married women from poor households in rural areas. In Indonesia, many married women from poor farmer families run own small businesses in front of or not far from their homes such as food stalls, small shops that sell simple items of daily necessities for villagers, or make handicraft items from bamboo, rattan or wood. They do such activities solely to increase family income. In other words, the existence of MSMEs in Indonesia contributes significantly to generate employment and so to alleviate poverty in the country (Tambunan, 2018a).

Within the group of developing countries, it can be said that Indonesia is the most experienced regarding MSME credit policies and the development of microfinance institutions. Even microfinance institutions already existed in Indonesia long before its independence in 1945. The first time the Indonesian government launched a special designed subsidized credit scheme for MSMEs was in 1971 at the beginning of the 'New Order' era under the Suharto government (1966-1998), and followed by various other credit schemes with government subsidy for these enterprises in certain sectors during the 1980s and 1990s. In 2007, a public guarantee credit scheme, People's Business Credit (or KUR), was launched, for MSEs that do not have access to commercial banks because they do not have valuable assets to be used as collateral (Tambunan, 2018a,b).

In addition to KUR, many ministries have also their own special designed credit schemes for MSMEs such as start-up capital initiated by the Ministry of Cooperative and Small Medium Enterprise (SME). And, in the past few years, financial technology (fintech) peer to peer (P2P) lending has grown rapidly in Indonesia, which can be a good alternative source of funding for MSMEs.

2.DEFINITION AND FEATURES OF MSMEs

Indonesia is one of the countries that have the same definition of MSMEs in all sectors. While in many other countries such as Malaysia and Thailand, the definition of MSMEs differs across sectors, for example, between MSMEs in services and MSMEs in manufacturing industry or those in trade (Tambunan, 2009). The first time the Indonesian government had the national definition of MSME was in 1995 through the issuance by the Ministry of Cooperative and SME of the Law on Small Business Number 9. In this law, MSEs are defined as business units with initial assets (not including land and buildings) of no more than 200 million Indonesian rupiah (IDR) or with annual turnovers up to 1 billion IDR. Business units that have annual turnovers with value above 1 billion IDR but less than 50 billion IDR, or initial assets above 200 million IDR up to 500 million IDR, are defined as medium enterprises (MEs). In 2008, the Ministry replaced this 1995 Law by the new one, i.e. Law on MSMEs Number 20. In this new law, MSMEs are defined as business units with annual turnovers not more than 50 billion IDR and total initial assets, excluding land and building, of less than 10 billion IDR (see Table 1). Companies with annual sales more than 50 billion IDR or total initial assets of 10 billion IDR and beyond are considered as large enterprises (LEs).

Table1 Indonesian Law on MSMEs No.20, 2008 (in Indonesian rupiah/IDR

Criteria	Sub-size category of MSMEs		
	Microenterprises (MIEs)	Small enterprises (SEs)	Medium enterprises (MEs)
Annual turnover	≤300m	> 300m - ≤2500m	>2500m - ≤ 50b
Initial assets (excl. land and building)	≤50m	> 50m. - ≤ 500m	>500m. - ≤Rp10b.

Source: State Ministry of Cooperative and SME (www.depkop.go.id).

In addition to this law, Indonesia also has a definition of MSMEs based on the number of permanent workers adopted by the National Statistics Agency (BPS). Accordingly, business

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units with a number of permanent workers, excluding business owners/entrepreneurs, up to 4 people are defined as MIEs; SEs are units with 5 to 20 permanent employees, and those with more than 20 but less than 100 permanent workers are defined as MEs. Companies with 100 or more employees are considered as LEs.

Apart from being different in monetary value and the number of permanent workers, actually in Indonesia it can easily be seen the difference between MIEs and SEs, or between SEs and MEs in such as legality, market served (sell only to local market, or also to national market or also to foreign markets), socio-economic profile of business owners , have a special workplace/factory or not, sources of capital, the nature of work or the applied method of production process, structure of organization and management system applied, sources and quality of raw materials used, business location (urban or rural), have external relations or networks or not, motivation, level of entrepreneurship, and level of involvement of women as business owners (Table 2) (Tambunan, 2018a).

Table 2 Features of MSMEs by Sub-category in Indonesia

Description	MIEs	SEs	MEs
Legality	Informal without business license	Many have business license and pay all taxes	all operate legally and pay all taxes
Place	Majority in villages	Many in town & big cities	Mostly in town & big cities
Way of doing business	- all activities are managed by the owner - no financial records/not-well documented	- In some, all activities are managed by the owner - Some have well-financial records	-mostly adopt modern management system, -all have well-financial records system
Type of worker	Many operate without wage-paid workers	some use unpaid family members as helpers	all use wage-paid laborers with formal system recruitment
Process of production	Manually	some use advanced technologies	Activities in many are mechanized or computerized
Market	Majority serve only local consumers with low-income	-many serve wider market including export -many sell to consumers with higher income	all serve wider market for middle to high-income buyers
Owner’s profile	Majority are low educated and poor	some are well-educated and non-poor	-majority are well educated -some are from wealthy families
Sources of raw materials	majority make use of local raw materials	many use imported raw materials	majority use imported raw materials
Sources of capital	majority use own money	many use external sources, including banks	majority have access to financing from banks

Business relations	-Only few have business linkages or partnerships with LEs or other business entities -majority have no membership of any business association	-many have partnerships with LEs in the form of e.g. subcontracting -many are members of business associations	-majority have strong external networks with other business entities including banks, LEs or even with companies in foreign countries through involvement in regional/global supply-chain production linkages - many have good relations with relevant ministries - many are members of business associations and Indonesian Chamber of Commerce
Motivation of owner	for all: to survive/to increase family income	for some: to generate profit	for all: to generate profit
Entrepreneurship level	very low	higher	very high
Level of women engagement as owner	Majority	Many	Few

Sources: adopted from Table 3 in Tambunan (2018a) with some modification.

For example, with respect to formality, MIEs are mainly unregistered business activities or found in informal sector. Whereas, all firms from the ME category are registered, have permanent addresses, and they pay taxes. Or, with respect to women engagement as business owners or entrepreneurs, they are more prevalent in smaller enterprises than in large companies, and among MSMEs, the number of tiny enterprises (i.e. MIEs) whose owners or entrepreneurs are women is far more than the number of SEs, especially as compared to the number of MEs, for the following two main reasons. First, according to the nature of the activity or type of business or item made, or the pattern or method of production applied, MIEs do not really need advanced machines and modern and expensive production tools and highly educated workers. In Indonesia, generally, MIEs are activities that generate low income just enough to live or survive, such as roadside food stalls, tiny shops that sell daily essentials, small meals or snacks production, street vendors, and handicrafts. Second, also because of that, activities of MIEs do not need special spaces. Many married women from low income/poor household in rural areas do their own small business activities in their home or in front of their houses (e.g. small shops, handicrafts), so they can more easily share their time between doing business and conducting their household duties (Tambunan, 2012, 2018a).

3.LITERATURE REVIEW

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Literature on growth barriers facing MSMEs in developing countries is quite large, which includes many journal articles, official reports and working papers with cross-country evidence, e.g. Beck et al. (2005), Beck et al. (2005), Beck and Demirguc-Kunt (2006), Beck (2007), Ayyagari et al. (2011), Abdulsaleh and Worthington (2013), Kuntchev, et al. (2013), ADB (2014a), and Wang (2016). There are also many country case studies. For example, studies from Chowdhury (2007), Ahmed and Chowdhury (2009), Aziz and Siddique (2016), Hoque et al. (2016), and Islam Hossain (2018) on constraints facing MSMEs in Bangladesh. They show that lack of financial support is a serious obstacle facing many, especially MSEs in the country. Different from LEs and also from MEs to a certain extent, most MSEs in Bangladesh do not have access to banks. Instead, they depend heavily on loans from informal sources. The same evidence is also found in India and Pakistan. Studies by such as Kshetri (2011) and Khandke (2014) show that MSEs experienced a variety of problems that make many of them, mostly traditional enterprises, difficult to survive, which include lack of funds. Only few MSEs have access to banks, because owners of most MSEs do not have valuable assets to be used as loan collateral. and their businesses are often considered unprofitable by banks.

In Indonesia, Tambunan (2017, 2018a,b) has identified development constraints of MSEs, and again, lack of access to formal sources of funding is their main barrier to grow. Other serious problems facing many MSEs in this country are difficulties in marketing, distribution and the procurement of raw materials. Meanwhile, in China, Shen et al. (2009), Ji (2011), Yin (2012), and Jiang et al. (2014), among yet many others also come with the same conclusions that in general MSEs experience financing difficulties which are partly due to lack of access to credit from formal sources such as banking and other non-bank financial institutions.

In Africa, findings from case studies in countries such as Ghana, South Africa and Mozambique suggest obviously that only MSMEs with easy access to finance from formal sources have great opportunities to grow (e.g. Quartey, 2003; Abor and Biekpe, 2006; Abor and Quartey, 2010; and Dinhucha Gonçalves Fumo and Jose Chiappetta Jabbour, 2011). These studies found that MSEs' access to bank credit is hampered by various factors such as collateral requirements, poor knowledge of financial providers, strict eligibility criteria, lack of knowledge about loan and bureaucratic criteria.

In conclusion, what emerges from the literature review is that MSMEs in developing countries face various constraints. However, the general finding is that lack of funds is their main serious problem, especially MSEs. Although in many countries studied, their governments have tried to help MSEs in funding by e.g. providing special subsidized or guaranteed credit schemes and making various regulations so that the banking sector gives more opportunities for MSEs to obtain credit, only minority of them have access to banks. In other words, most of the MSEs that need additional capital are still dependent on informal sources. There are three reasons often mentioned in the literature, namely the absence of collateral, businesses of MSEs are considered unprofitable because they only serve the local market that most consumers are from low-income or poor households, and most MSEs do not have good records of their business performance or financial condition.

4.OBJECT OF THE STUDY

In this study attempt has been made to examine the impact of MSMEs financing policy in Indonesia on MSMEs access to financing from formal sources. More specifically, the study had

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three main objectives, namely to examine: (i) the main constraints faced by MSMEs; (ii) their access to financing from formal sources; and (iii) various alternative credit schemes available for MSMEs in the country.

5.RESEARCH METHODOLOGY & DATA SOURCES

The approach used in this study is descriptive and analytical in nature and is based on secondary data collected from three official sources, namely the Ministry of Cooperative and SME, Bank Indonesia (the central bank of Indonesia), and National Statistics Agency (BPS). For the purpose of analysis, simple statistical tools like percentages and volumes are used.

6. EMPIRICAL ANALYSIS

6.1 Recent Development

As said before, MSMEs play a crucial role in Indonesian economic development. In 2017 there are 62 million units (see Table 3), or around 99% of all firms in all sectors. National data shows that 92 % of the total workforce works in this business group. Especially MSEs are very important for many low- income or poor households, either as their main source of income or additional (secondary) income, or seasonal income during the dry season in rural areas. It can be found that in many poor farm households, men do work in rice or plantation fields, while women do some simple income generating activities not to seek profits but merely to supplement family income. Such MSE activities not only help them to survive or to have a decent life but also they help the government's efforts to alleviate poverty. Because Indonesia does not have unemployment benefits as in many developed countries, the existence of MSEs is very important indeed.

Table 3 Total Enterprises by Size Category in Indonesia, 2009, 2011, 2013, 2017 (000 units)

Description	Period			
	2009	2011	2013	2017
MIEs	52,176.8	54,560.0	57,189.4	62,106.9
Ses	546.7	602.2	654.2	757.1
Mes	41.1	44.3	52.1	58.6
LEs	4.7	5.0	5.1	5.5

Sources: State Ministry of Cooperative and SME (www.depkop.go.id) and BPS (www.bps.go.id).

One characteristic of MSMEs in Indonesia (as also evident in other countries) is that their contribution to GDP formation is always far smaller than their contribution to job creation. However, because their numbers are far more than the number of LEs, their GDP share is greater than the contribution of LEs to GDP. As can be seen from Figure 1, based on constant market prices, the contribution of MSMEs to GDP is recorded at around 57%. So, this structure of GDP by size of firm that the greater GDP share of MSMEs than that of LE is simply because the number of LEs is less than 1% of total number of firms (compared to that of MSMEs that reaches 99%) gives a clear impression that the level of productivity per worker or per firm of the MSMEs group is very low. This can be understood because MSMEs are dominated by MIEs

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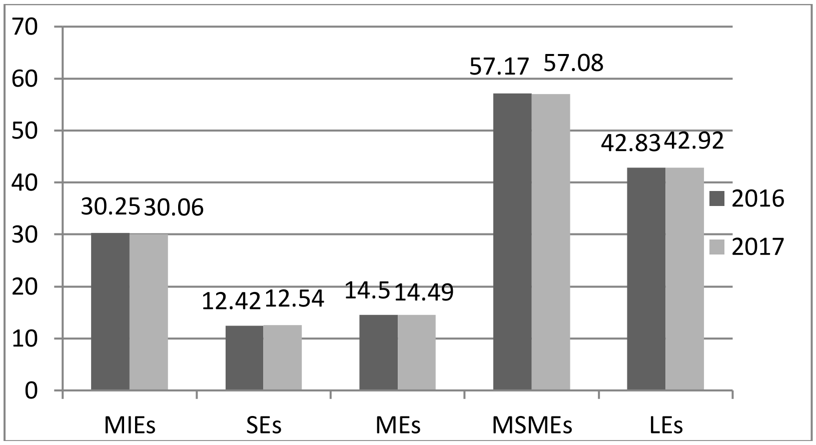
which consist of traditional trade activities like street vendors, various services providers, and traditional/home industries which manufacture simple and low quality products with low degrees of mechanization and do not use advanced technologies (see again Table 2).

Figure 1 Real GDP Shares of MSMEs and LEs in Indonesia, 2016 and 2017 (%)



Sources: State Ministry of Cooperative and SME (www.depkop.go.id) and BPS (www.bps.go.id).

6.2 Main Growth Constraints

As in other developing countries, MSMEs in Indonesia face many problems that make many of them, especially MSEs, difficult to develop or even to maintain their businesses. Although there is no data available to support, it is very possible that the number of MSEs experiencing many obstacles in rural areas is far more than those in urban areas or cities. Simply, because the farther away from the center of government and the center of economic and financial activities the less hope is for them to get assistance from the government and access to funding and market. The number of the constraints or the magnitude or the seriousness of the obstacles faced by MSMEs may differ between regions, or between rural and urban areas, or between sectors (e.g. between MSMEs in manufacturing industry and those in agriculture) and sub-sectors (e.g. between MSMEs in food industry and their counterparts in garment industry), or even between MSMEs in the same sector or sub-sector or region.

However, there are a number of problems commonly experienced by many MSMEs anywhere and in any sector, namely limited funds to finance their daily production activities and to expand their production capacities; difficulties in marketing, distribution, transportation, and procurement of raw materials and other inputs needed; difficulties in getting skilled workers with relatively inexpensive wages; unable to use advanced technologies, limited access to up-to-date and comprehensive information; complicated bureaucratic procedures, especially in dealing with business and other business-related permits and requirements regulated by the government regarding many aspects such as clean production, product quality and safety; and government

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macroeconomic policies (e.g. price policy, labor policy, foreign trade policy, monetary policy, fiscal policy) which resulted in market distortions. All of these problems in the literature are referred to as external obstacles to MSMEs growth with limited funds as the most serious constraint for many MSMEs, especially MSEs, in developing countries (e.g. Abdulsaleh and Worthington, 2013; Tambunan, 2009, 2018a).

Based on data obtained from national surveys on MSEs in the manufacturing industry conducted in 2010 and 2013 (BPS, 2011, 2014), Table 4 shows their main constraints. As can be seen, limited funds is indeed the main problem experienced by many of them. The second most serious problem is marketing difficulties in various forms such as many of them are unable to compete with LEs or imported goods, difficulties getting strategic locations, and building rentals are too expensive. The third most serious problem is lack or costliness of raw materials.

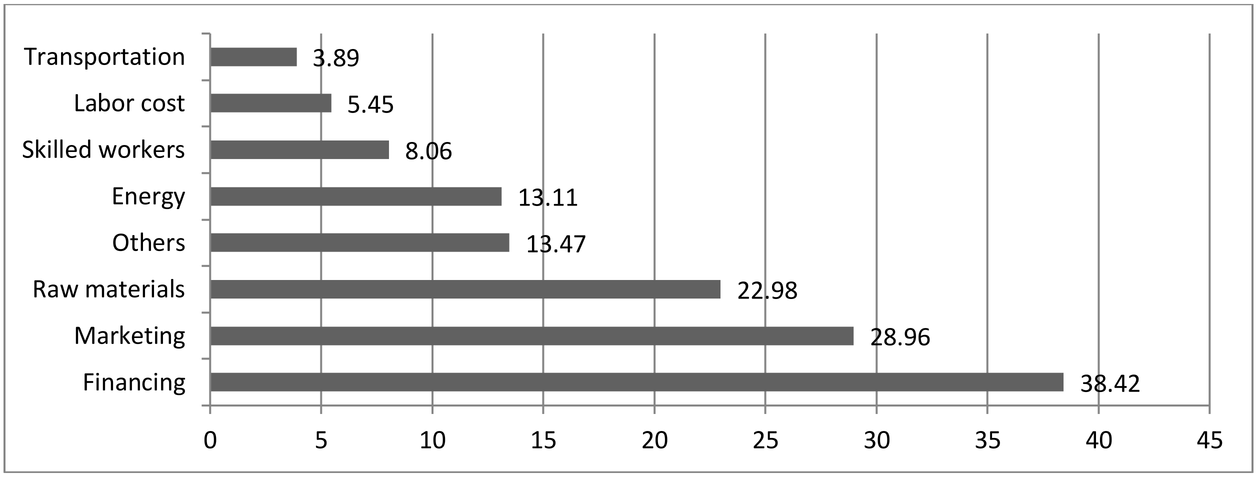
Table 4 Manufacturing MSEs by Main Constraints in Indonesia, 2010 and 2013 (%)

Constraints	2010	2013
Lack of capital	37.81	37.13
Marketing difficulties	23.21	20.76
Difficulties in getting raw materials, or too expensive	22.67	24.42
Other main constraints	8.65	10.38
High labor costs of difficulties in finding workers with appropriate skills	4.17	3.98
Transportation / distribution obstacles	1.86	1.52
High price or short supply of energy	1.63	1.82
Total respondents	2,133,133	2,578,463

Sources: (BPS, 2011, 2014).

While the results of the 2017 survey (BPS, 2018) show that out of the total 4.46 million MSEs , 65.67% experienced serious difficulties to increase their production volume or to expand their production capacities in order to meet increasing market demand, or even to stay in business. Figure 2 shows the types of problems experienced which include difficulties in financing, marketing and getting raw materials. The number of entrepreneurs experiencing these difficulties, however, differs according to industry groups. For example, in the food industry, the are 979,931 entrepreneurs experiencing serious difficulties, and around 38% of them said that their main constraint is to find external sources of funding; while in the paper and paper goods industry, only about 18% of 3510 entrepreneurs having difficulties said the same.

Figure 2 Types of Difficulties faced by Manufacturing MSEs in Indonesia, 2017 (%)



Source: (BPS, 2018).

6.3 MSMEs Financing

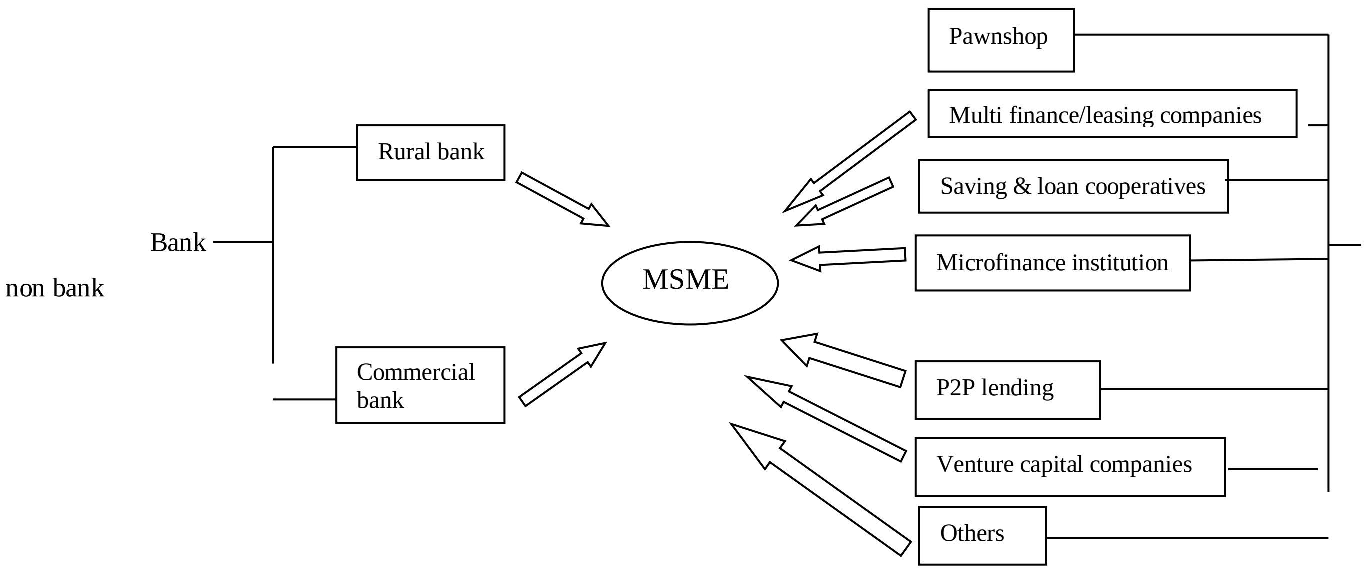
6.3.1 The Demand-Side

It is not easy to know exactly how many of the approximately 62 million MSMEs in Indonesia need funds from outside sources, or who have ever applied for loans to banks or other formal financial institutions. However, the 2017 national survey of manufacturing MSEs, although only a survey (not census) and only in the manufacturing sector may provide a clue. Regarding the source of capital it reveals from the survey three categories of MSEs, namely (a) fully financed by own money (i.e. 3,679,592 respondents or 82.42% of the total MSEs surveyed); (b) partially funded by external sources (i.e. 608,352 respondents or 13.63%); and (c) the rest (i.e. 176,744 respondents or 3.99%) who are wholly dependent on funds from external sources. Those who wholly or partly used funds from external sources, only a small percentage of them fully used bank loans. There are more respondents who used funds from non-bank such as saving and loan cooperatives (credit unions), pawnshops, multi finance/leasing companies, microfinance institutions, or from informal sources such as friends, relatives, money lenders, payments in advance from consumers, or debt to the suppliers of raw materials (i.e. payment of raw materials after goods have been sold). Many owners of especially MIEs prefer informal sources of fund because they can get the money they needed immediately with no administration costs; although interest rates that they pay are often much higher than commercial banks' rates (BPS, 2018).

6.3.2 The Supply-Side

Figure 3 provides a general picture about financial service providers of MSMEs in Indonesia. The financial service providers can be grouped into two categories, namely banks and non-banks. The bank category can be divided further into two sub-categories, namely rural banks (well known in Indonesia as Bank Perkreditan Rakyat or BPR) and commercial banks. Then each sub-category can be distinguished between sharia or Islamic banks and conventional banks. Sharia banking is a banking system based on the principles of Islamic or sharia law and guided by Islamic economics. Islamic law prohibits collecting interest or "riba". That is why sharia banking is also known as non-interest banking.

Figure 3 Financial Service Providers of MSMEs



In Indonesia, commercial banks can be grouped into five categories, namely state-owned banks (e.g. Bank Rakyat Indonesia or BRI, Bank Mandiri, Bank Negara Indonesia or BNI, Bank Tabungan Negara or BTN), regional development banks (Bank Pembangunan Daerah or BPD), private commercial banks, joint-venture banks, and foreign banks. BPDs are owned by provincial governments and have a legal form that is now the same as that of commercial banks, but these banks focus more on financing regional economic activities. Among commercial banks that provide credits, BPR, BPD, and BRI are the main providers of loans. Although in principle it is the same as a commercial bank, the presence of a BPR is focused from the beginning to serve the community in remote rural areas which have not been reached maximally by commercial bank services. It is regarded as a formal microfinance provider or a second-tier bank to provide services to MSEs and poor households (ADB, 2014a,b).

Microfinance has a long history in the national poverty reduction and rural economic development context in Indonesia and it is linked to development of local economic activities. Some state-owned as well as large commercial banks have developed microfinance windows and programs. The most important one is BRI. This state-owned commercial bank is the leading institution in microfinance in Indonesia, and it is well-known internationally. The other important banks with microfinance programs are Bank Danamon with its Danamon Simpan Pinjam (DSP) program, Bank Mandiri with its Unit Mikro Mandiri (UMM), and Bank Bukopin with its Swamitra program (ADB, 2014a; Tambunan, 2018a,b).

To expand MSME access to bank funding, in 2018 Bank Indonesia (the Indonesian central bank) requires all banks to allocate at least 20% of their total loans to MSMEs. Since the issuance of this regulation, banking attention to MSMEs has been getting better each year. As shown in the following two figures, based on the credit balance value, total MSME loans from the banking

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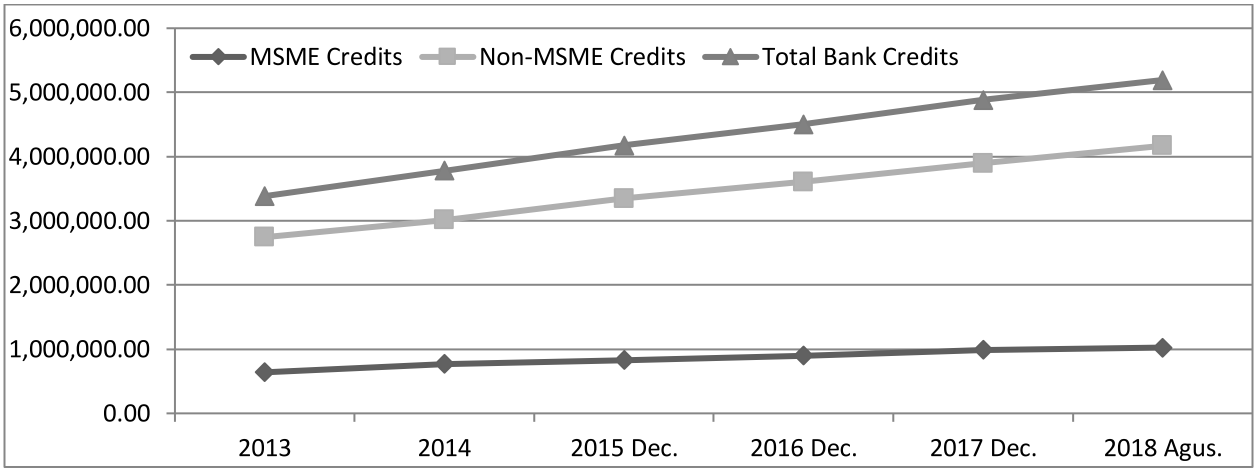
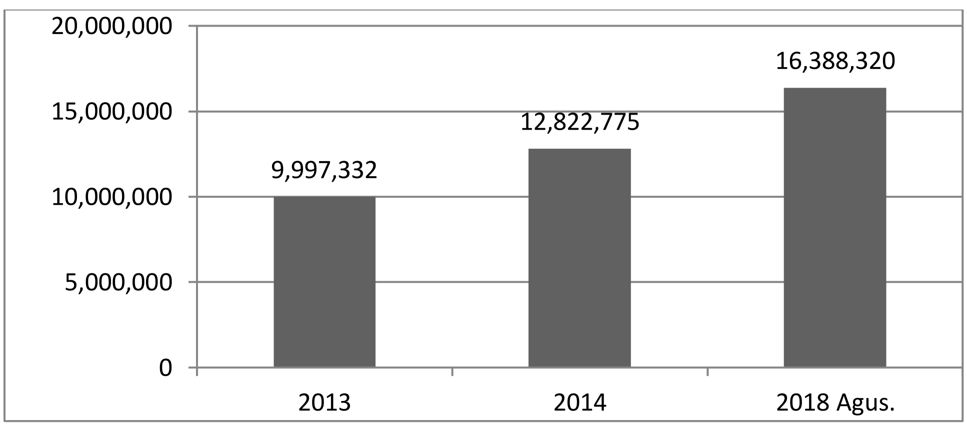
sector increases every year, from almost 640 trillion IDR in 2013 to 1,024.9 trillion IDR in August 2018 (Figure 4). Likewise, the number of bank accounts owned by MSME also increased to above 16 million in August 2018 from below 10 million in 2013 (Figure 5).

Figure 4 Outstanding Loans of MSMEs from Commercial Banks in Indonesia, 2013-2018 (miliar IDR)



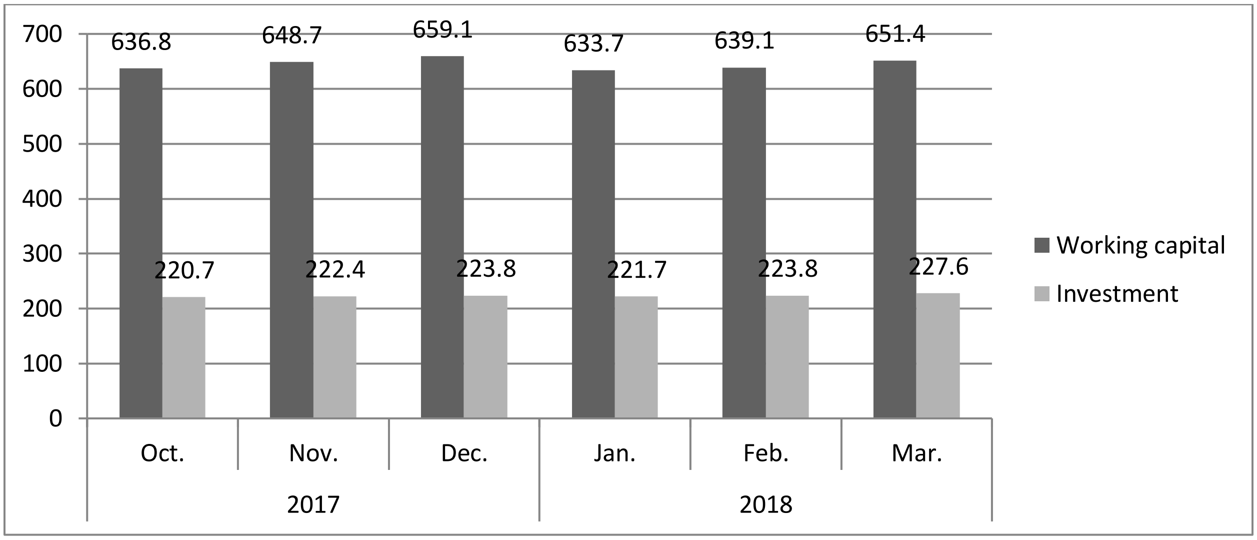
Source: Bank Indonesia (https://www.bi.go.id/id/pencarian/Default.aspx?k=kredit%20UMKM



Source: Bank Indonesia (https://www.bi.go.id/id/pencarian/Default.aspx?k=kredit%20UMKM

In general, the most needed credit by MSMEs is for working capital for raw material purchases, payroll wages, the payment of electricity, lease payments when renting premises, and to cover other deficiencies when monthly turnover is not proportional to production costs. Especially among the MSEs who rarely make investments compared to MEs. As can be seen in Figure 6, credits for investment are always smaller than working capital loans in MSMEs' total credits (Kompas, 2018).

Figure 6 MSMEs' Credit by Type of Credit, 2017-2018 (trillion IDR).



Source: data from OJK, cited from Kompas (2018).

In November 2007, a special designed public credit guarantee scheme (CGS) was launched, called Community Business Credit or more popular as Kredit Usaha Rakyat (KUR), to provide loans to feasible, but not bankable MSEs and cooperatives. KUR is a portfolio guarantee scheme, in which the CGS providing agencies give the channeling banks permission to provide credit to any potential debtor as long as he/she can meet certain eligibility criteria. In return, the banks notify the CGS providing agencies, usually on a monthly basis, of the new loans they have approved. In case that KUR granted MSEs cannot payback their loans, the CGS providing agencies then pay the guaranteed amounts of the default loans to the particular banks by using the fund provided by the Ministry of Finance (Tambunan, 2018b).

There are three key pillars in the implementation process of the scheme. The first one is the government with the main function is to assist and support the implementation process. The government is represented by Bank Indonesia, the Ministry of Finance, the Ministry of Cooperative and SME, and the Coordinating Ministry for Economic Affairs, and a number of sector-related ministries to oversee the implementation of the scheme in their own sectors, such as the Ministry of Trade, the Ministry of Industry, and the Ministry of Agriculture. The Coordinating Ministry for Economic Affairs has been appointed as the national coordinator of implementation of the KUR scheme (Figure 7).

Figure 7 The Functioning of KUR

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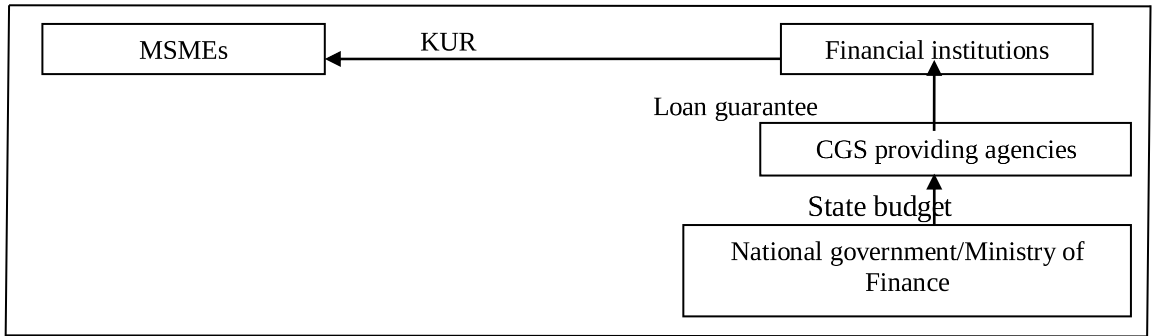
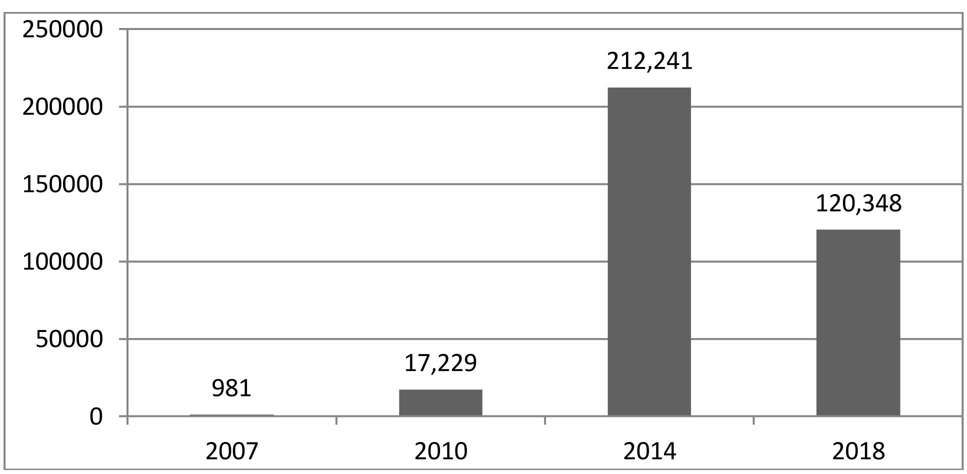


The second pillar is the guarantor companies. In 2018 there are 11 guarantor companies which consists of 10 limited liability companies (PT), including PT Asuransi Kredit Indonesia and PT UAF Jaminan Kredit, and one public company, i.e. Perum Jaminan Kredit Indonesia. The executing banks are the third pillar, which include all stated-owned banks, many regional banks and some private banks.

Since the launch of the program in 2007 and up to 2018, the number of KUR realization from year to year showed a significant increase except in 2009 when the global economic crisis hit Indonesia, which only channeled 4.75 trillion IDR. In the first year, the amount disbursed was recorded at 981 billion IDR, and by the end of 2018 (December 31), the realization of distribution was recorded at 120,349 trillion IDR (Figure 8), or around 97.2 percent of the 2018 target, with a total of 4,440,028 people.

Figure 8 Development of KUR Realization, 2007-2018 (billion IDR)



Source: Bank Indonesia (BI) (http://www.bi.go.id/id/umkm/kredit/data/Default.aspx).

In addition to KUR, recently, the government introduced Ultra Micro Credit (UMi) for MIEs in the lowest level, which cannot be facilitated yet by banks through the KUR program. UMi provides financing facilities also without collateral with a maximum value of 10 million IDR per customer with interest rate of 2%-4%.The fund is distributed by non-bank financial institutions, i.e. PT Pegadaian, PT Bahana Artha Ventura, and PT Permodalan Nasional Madani, and the government appointed the Government Investment Center (PIP) as the coordinator. The sources of fund come from the state budge and the contributions of local governments and financial institutions, both domestic and global. In 2018, UMi was targeted to reach 800,000 non-bankable micro-entrepreneurs. All entrepreneurs who received UMi credit must be accompanied by experts and attend trainings, so that their business can develop smoothly (MoF, 2019).

Besides KUR and UMi, there are yet many other special designed credit schemes for financially feasible but non-bankable MSEs, including from BRI, known as Village/Rural Business Credit (Kupedes). This credit is channeled through all village branches of BRI (BRI Unit Desa). Kupedes is a general-purpose rural loan scheme with competitive interest rates. It offers loans for working capital as well as investment to traders, farmers, producers, and businessmen in other economic sectors, as well as to households who need extra money for such as the education needs of their children, house renovation, and new vehicle or house purchases. Despite its name, Kupedes is not only for rural community, but for anyone in urban areas or cities who need money. The maximum loan limit is 250 million IDR with competitive interest rates and the period of credit is between 12-60 months. As with KUR and UMi, Kupedes also does not require collateral, only the applicant must have run his/her business for at least 1 year, and the business documents must be completed (BRI, 2019),.

The Ministry of Cooperatives and SMEs has also its own designed credit, namely start-up capital. Initially, this fund was prepared for 1,830 business beginners with loans ranged from 10 million IDR to 13 million IDR. Only pilot businesses that have been at least six months old with the owners/entrepreneurs maximal 45 years old and have never received similar assistance from the Ministry can apply to this scheme. But, before applying, the applicants are required to have a business plan, business information, loss/profit calculations, plan for using the requested fund, and identity their business activities. The proposal should be submitted to the Ministry via the relevant local government institutions. For 2019, the Ministry will increase the target with 16,292 new entrepreneurs, with a total value of 325.84 billion IDR (Hadi, 2019).

In addition to start up capital, the Ministry also has a revolving loan scheme that is managed by an institution specifically built for this scheme, i.e. Revolving Fund Management Institution for Cooperatives and MSMEs (LPDB-KUMKM). The conditions for applying for the scheme are very simple. For cooperatives, it requires only a letter of application, proposal, deed of establishment and ratification, clear financial statements, annual member meeting reports (RAT) and the legalities of cooperative, administrators, supervisors and managers. While the conditions for MSMEs are almost the same as for cooperatives; the different is only that submissions by MSMEs do not need to be accompanied by reports of RAT. The allocation of loans for 2018 was set then at amounted to Rp1.2 trillion, and the target of distribution was focused on the productive sectors such as in agriculture and manufacturing industry. The interest rates for MSMEs in agriculture, fisheries and plantations are 4.5 percent, while in the manufacturing industry 5 percent and 7 percent for savings and loan cooperatives. In 2015 total

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revolving fund reached Rp 2,750 trillion allocated to 203,701 MSMEs (http://www.lpdb.id/).
Alternatively, MSMEs can also try to get financing from venture capital companies. The first venture capital company in Indonesia was PT Bahana Pembinaan Usaha Indonesia, founded in 1973 by the Ministry of Finance and Bank Indonesia. This company together with all state-and regional government-owned companies have established venture capital companies in all regions/provinces in Indonesia. Unlike bank financing, financing by venture capital companies is in the form of temporary capital participation. Other differences are venture capital companies as risk takers in capital, and provide management assistance to granted MSMEs. Until July 2018, the venture capital industry recorded total financing and investments worth Rp. 8.13 trillion from a total of 66 venture capital companies (https://keuangan.kontan.co.id/news/inilah-65-perusahaan-modal-ventura-yang-terdaftar-di-ojk).
Many other ministries also have their own credit schemes for MSMEs in their sectors, such as the Ministry of Agriculture (e.g. SSRG, KUPS, KPENRP), the Ministry of Maritime Affairs and Fisheries (KKPE), the Ministry of Communication and Information (BP3TI), the Ministry of State-Owned Enterprises (PKBL), the Ministry of Finance (KUMK), the Ministry of Public Works and Public Housing (PPP), and the Ministry of Forestry and Environment (P2H, KLH).
Finally, in the past few years, fintech Peer to Peer (P2P) lending has grown rapidly in Indonesia, which can be a hood alternative source of financing for MSMEs. Data from the Financial Services Authority (OJK) shows that per October 2018 P2P loans have reached Rp 15.6 trillion. P2P loans do not need collateral and the loan ceiling can reach IDR 200 million. Per January 2019, there are 99 fintech companies based on P2P lending. One of them is PT Amartha Mikro Fintek, which by the end of 2018 had distributed loans of more than Rp. 635 billion to 152,000 MSMEs, mostly in the trade and agricultural sectors. Other companies include Drrupiah.com, Cekaya.com, Taralite.com, Credy.co.id, DuitPintar.com, and Modal.co, id.

6.3.3 Main Reasons for Lack of Access

Both data on the total number of MSME bank credit accounts for the period 2013-2018 as well as the result of the 2017 survey of manufacturing MSEs shown above give a clear impression that although there are already so many formal sources of funding for small businesses, both from banks and non-banks, only a small number of MSMEs in Indonesia have used these sources. There are several reasons. From the 2017 survey of manufacturing MSEs, it reveals that many of them were unable to lend money from banks because they did not have valuable assets to be used as collateral. Many families in rural areas who run small businesses do have large houses and land obtained from their parents, but no certificate, so that their land and houses cannot be accepted by banks as collateral (BPS, 2018).
While other respondents said that they don't dare to borrow because of high interest. Especially for those whose productions are seasonal such as the craft industries in tourist areas that make various kinds of souvenirs that only highly demanded during the holiday seasons, or those who make children's uniforms that only have many buyers when new school period is about to start. Also many MSE owners do not dare to borrow from banks because their sales on average per month are not so much or uncertain.
There are also many respondents confessed that they have difficulties fulfilling credit application procedures, or their proposals were rejected. This can be understood because most of, particularly, the MSEs' owners have only elementary school education. Even though they can

read, they have difficulties understanding all kinds of requirements in the credit application form. Therefore, the government has often asked for various parties such as NGOs, universities, officials of related ministries, or even the banks themselves to assist MSEs' owners in applying for credits.

There are also some respondents whose limited information about credit application procedures is their main reason for not borrowing money from banks. Often a ministry or a commercial bank issued a special credit scheme for MSMEs but without extensive socialization about the scheme. Let alone MSMEs in remote locations or isolated rural areas, many MSMEs in cities or urban areas are also not aware of existing funding schemes special designed for them that they actually can easily get because without collateral. Indeed, it is often recommended that banks or government departments that have MSMEs funding schemes to actively look for or identify potential borrowers, not just wait until MEMEs come to them.

7. CONCLUSION

This Indonesian case study shows that even though the government has tried to make it easier for MSMEs to gain access to official sources of financing, including providing a number of special designed credit schemes for MSMEs such as KUR, only very few MSMEs that has ever borrowed money from banks or non-bank financial institutions. Of course there are many MSMEs who were initially not interested to borrow money from banks for various reasons. But for those who want to get loans from the bank, not all of them have managed to get them for various reasons including the absence of collateral, high interest rate, and their proposals were rejected.

Perhaps the important message of this study is that making many credit schemes specific for MSMEs and the active participation of the banking sector in MSMEs funding do not guarantee the success of the government policy on MSMEs financing. There must also be done on the demand side, such as mentoring for prospective borrowers in preparing all administrative requirements for loan applications, and, perhaps more importantly, making it easier for MSMEs owners to arrange land certificates to be used as collateral. Indeed, in recent years the Indonesian government has distributed many land certificates for farmers and other villagers who own land but are not certified. This effort must continue and must be comprehensive in all rural areas in Indonesia.

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