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# Determinants of Loan Access towards Financial Performance in MSMEs

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## Abstract

*Low competitiveness is one of the obstacles to improving the performance of MSMEs. One of the factors that cause this is the lack of access for MSMEs to financial institution facilities. This study aims to analyze the financial performance of MSMEs seen from the accessibility factor to financial facilities provided by various financial institutions in Tasikmalaya City. The study used a quantitative descriptive method. Data analysis used the PLS Structural Equation Model (PLS-SEM). The sample consisted of 100 SMEs in the creative economy sub-sector through the random sampling method. The analysis technique uses a path analysis model to see the causal relationship between variables, either directly or indirectly. Data were obtained through direct interviews with SMEs using closed questionnaires. The results show that management administration has a direct or indirect effect on financial performance. The management of administration is important to improve accessibility to the financial performance of MSMEs. Guidance for MSMEs is needed to ensure that loans can be utilized optimally for business development.*

*Keywords: financing; loans; MSMEs; performance*

## I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have a very important role in the economy of a country. The development of MSMEs is a real sector driver that has a significant impact on economic growth [1]. However, various problems become obstacles in the development of MSMEs in Indonesia. One of the problems often faced by MSMEs is the lack of access to financial facilities, a low financial performance due to limited access to capital, both from banking institutions and non-bank institutions [2]. This is also in line with what was conveyed by the [3] which stated that the main obstacle in developing MSMEs in Indonesia is the lack of access to finance. Access to finance is a critical factor for MSMEs to be able to compete during global competition [4]. The low accessibility to financial facilities is illustrated by the low percentage of loans disbursed to MSMEs (Figure 1).

Various government policies were carried out to overcome funding problems for MSMEs. Law No. 23 of 1999 which was amended to Law No. 3 of 2004 concerning Bank Indonesia's policy in providing financial assistance to MSMEs. Financing assistance comes from financial institutions in the form of banking financial institutions and non-bank financial institutions. Around 80% of MSME financing is currently carried out by banking financial institutions [1]. Reference [6] suggests that one form of popular financing facility used by MSMEs is in the form of People's Business Credit (KUR). With this program, it is hoped that it will make it easier for business actors to access financing facilities [7].

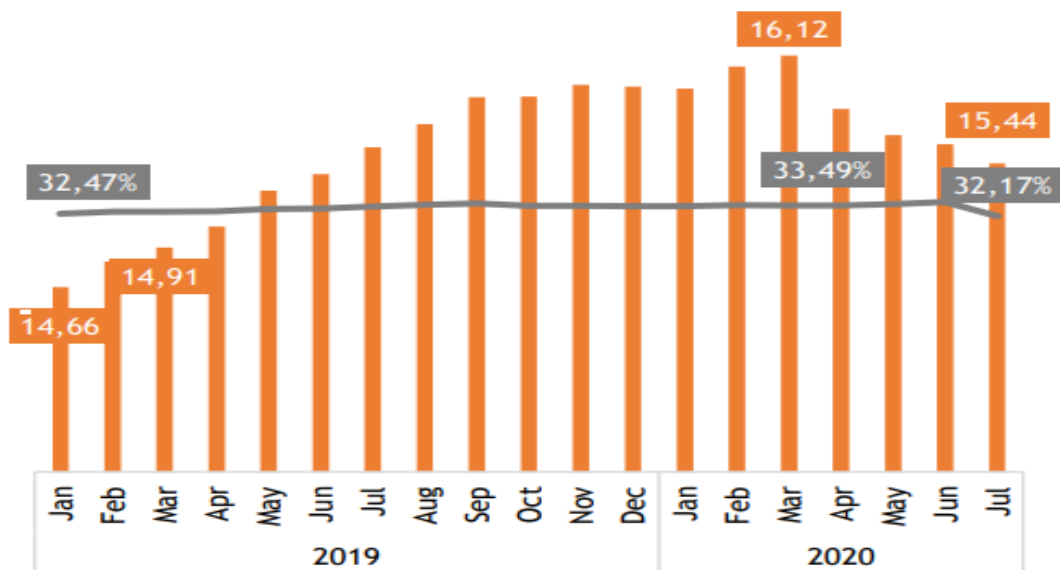


Figure 1. Proportion of MSME Loans to Total Bank Loans [20]

Programs related to financial assistance have not been used optimally [1]. Reference [8] states that only 39% of small and 50% of medium-sized businesses use bank financing facilities. From the MSME side, in general, they cannot access these programs due to constraints in financial management [5], [1] and the provision of collateral [1]. Financial management has not been separated between business finance and family finance. This causes the recording of MSME financial statements cannot be done professionally. MSMEs experience problems in fulfilling credit application requirements, especially related to these two things. On the other hand, financial institutions also experience difficulties in analyzing business feasibility studies run by MSMEs. Bookkeeping is one of the documents that must be fulfilled in a business feasibility analysis to avoid credit problems in the future.

The existence of accessibility constraints to financial institutions is one of the factors that cause the low competitiveness of MSMEs [8], [2], [4]. Several MSMEs that received credit showed a change in performance as measured by various factors, namely the addition of assets, business expansion, and lifestyle [1]. However, not a few MSMEs that received loans also experienced a decline in performance due to the lack of optimal financial management in MSMEs.

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Based on the above background, this research focused on analyzing financial performance based on the accessibility to financial institution facilities at MSMEs in Tasikmalaya City. The measurement of accessibility is determined by several factors, including business characteristics, management administration, available resources, and access to loans. The results are expected to describe the condition of financial performance and give recommendations for increasing the competitiveness of MSMEs in Tasikmalaya City.

## II.LITERATURE REVIEW

### 1. Logic and Analytics

Development of MSMEs are closely related to the availability of capital for the development of MSMEs This is a problem that is often faced by MSMEs more on capital and limited access to finance [9]. Financing problems are overcome by easy access to financial institutions. Financial institutions according Keppres No. 61 Tahun 1988 are: business entities that carry out financing activities in the form of providing funds or capital goods by not withdrawing funds directly from the public. The system of financial institutions is divided into three, namely: bank financial institutions, non-bank financial institutions, financing companies are business entities outside the bank and Non-Bank Financial Institutions specifically established for carry out activities that are included in the business field of the Institution financing.

Financial institutions carry out small-scale sector financing, development and support services in forms of loans & grants for various institutions, availability of financial services for households & individuals, insurance and financial services, managing risk with various financial instruments [9]. The development of MSME Financing Institutions occurs in line with the development of SMEs and there are still many obstacles for SMEs in accessing sources of financing from formal financial institutions. other than that The development of this financial institution is also inseparable from its characteristics which provides convenience for SMEs in accessing sources of financing [1]. Ease of access to financing is closely related to the financial performance of MSMEs [4].

Factors that play a role in determining financial performance include: business characteristics, management administration, and resource. Reference [3] mention the larger the size of the company have an impact on the debt ratio, such as companies with large assets tend to have greater access to debt in the long run. The definition of MSME is not only determined by total revenue and asset. Several studies classify MSMEs based on the number of workers, competencies, and the number of managers. MSMEs are often described as inadequate in terms of funding. The condition of family business characteristics [13], unprofessional management [10], and lack of competence of business actors [11] are obstacles to accessing funding loans. In his research [8] stated that the low access to funding institutions is addressed with only 17% of MSMEs who make loans from formal banks or microfinance institutions, 36% get loans from

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informal sources, and only 7% of MSMEs use mobile phones or the internet to access financial institutions. Based on this argument, the proposed hypothesis is:

*H1: business characteristics affect access to loans*

Digital technology is becoming important to use at this time. Digital technology not only plays a role in the marketing process but also plays an important role in accessing fintech-based loans. Digital utilization is closely related to product marketing. MSMEs that can take advantage of digital technology in selling their products have a positive effect on sales [18]. MSMEs with high internet usage are considered to be able to improve financial performance as indicated by the addition of assets and business turnover. Based on this argument, the proposed hypothesis is:

*H2: business characteristics affect financial performance*

Financial institutions have provided various MSME loan products to encourage credit penetration to the MSME segment. The interest rates offered for non-government program credit products also vary, ranging from 8.5% to 26.5%, while for banks that provide credit for the Government program, namely the People's Business Credit, the interest rate given to end-users is 6% [20]. The various requirements set by financial institutions (bank or non-bank institutions) are different for each institution but the similar general requirements required include information on business profiles and administration by each MSME. Reference [10] explain a company with a good business plan always prepare various documents required. Based on this argument, the proposed hypothesis is:

*H3: management administration affects access to loans*

Reference [20] in his research explains that managerial competence was measured by the level of education, managerial experience, since the first time gaining experience and knowledge about business which has a positive impact on the performance of Small and Medium Enterprises (MSMEs). Reference [23] examined the management competencies of MSMEs that have been successful in business practice. The lack of managerial experience, abilities and personal qualities were found to be the reasons why a Micro, Small and Medium Enterprise (MSME) fell into business. Based on this argument, the proposed hypothesis is:

*H4: management administration has an affect on financial performance*

Reference [11] tested about management competencies in MSMEs that have been successful in business practices, they found that the lack of managerial experience, ability, and quality personal was found as a reason why a Micro, Small and Medium (MSMEs) fall in business. Based on this argument, the proposed hypothesis is:

*H5: resources affect access to loans*

Reference [19] found that lack of education and training will reduce the management ability of MSMEs in South Africa regarding failure in running a business. Education level affects access to loans because it is closely related to financial literacy. A business actor with a good financial

understanding can determine financial decisions in operating a business [23]. Based on this argument, the proposed hypothesis is:

*H6: resources affect financial performance*

One of the clear contributions of financial institutions to MSMEs is the existence of various loan programs that can be accessed by MSMEs [12]. Evidence has shown that finance has a more important impact on growth through promoting productivity growth and allocation [9]. Loans obtained by MSMEs can provide an increase in financial performance such as asset growth and additionally net income [14]. Based on this argument, the proposed hypothesis is:

*H7: access to loans affects financial performance*

### III. RESEARCH METHODS

This study uses a quantitative descriptive method consisting of four stages. The research population is all MSMEs in the City of Tasikmalaya. The sample consisted of 100 SMEs in the creative economy sub-sector through a random sampling method. The first stage is determining the variables and indicators used in the study. Literature study is used to determine these variables and indicators. The variable consists of 5 variables, namely business characteristics, management administration, resources, access to loans, and financial performance. Details of variables and indicators are shown in Table 1.

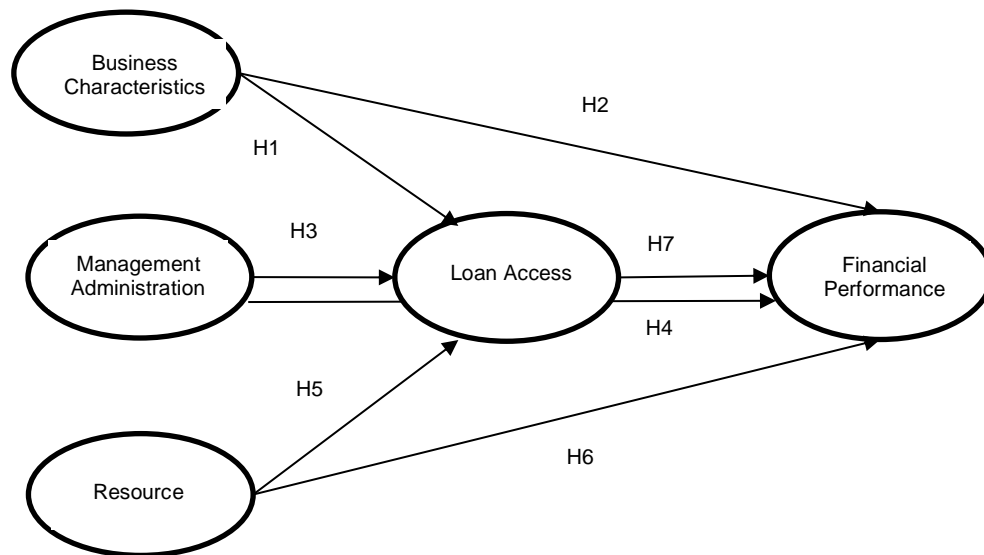
Path analysis model was used in this study. Hypotheses were compiled based on previous research studies. The model is compiled based on the causal relationship formulated in a chart. Figure 2 describes the relationship chart between variables and hypotheses in the study. The third stage of research is data collection. The data consists of primary data and secondary data. Primary data was obtained through interviews with a predetermined sample of SMEs. The sample consisted of 100 MSMEs selected at random (random sampling) located in various sub-districts in Tasikmalaya City. Interviews were conducted directly using a closed questionnaire containing all research variables and indicators. This indicator is determined to get information on the financial condition of MSMEs in as much detail as possible. The secondary data collected comes from several sources such as scientific publications, books, BPS, etc.

**Table 1. Research Variables and Indicators**

Variables	Sign	Indicators	Reference	Sign
Business Characteristics	X1	The use of digital technology	[13]	KU1
		Independent/group business manager		KU2
		Length of business		KU3
Management Administration	X2	Availability of business license	[10]	AM1
		Business Form		AM2
		Financial statements		AM3

Resource	X3	Business Place Status Number of employees level of education	[11]	SD1 SD2 SD3
Loan Access	Y1	Loan Access	[12]	AK1
Financial performance	Y2	Assets Net income	[14]	KK1 KK2

The fourth stage is data analysis. The collected data was then analyzed using Partial Least Square Structural Equation Modeling (PLS-SEM). PLS-SEM is used to test the relationship between the variables studied simultaneously [15]. The data analysis stage consists of three stages; the evaluation of the measurement model, the evaluation of the structural model, and the testing of hypotheses.



**Figure 2.** Relationships and Hypotheses in Research

The measurement model assessment assesses the construct validity and instrument reliability. The indicators tested in this evaluation include convergent validity, discriminant validity, and reliability tests. A validity test was conducted to determine the validity of the questionnaire or instrument used in the study. If the validity test has been carried out, it continued with reliability testing. Reliability testing is used to measure the level of consistency of respondents in answering questions in questionnaires or research instruments. The second stage is the assessment of the structural model. This assessment aims to estimate the causal relationship between latent variables [16]. This research used estimated path coefficients as the indicators to evaluate the structural model. The estimation of the path coefficient shows the path relationship in the structural model. The last stage is hypothesis testing. Hypothesis testing was conducted to test the five hypotheses proposed in the study. The test uses a two-way 95% confidence interval obtained through the bootstrap process.

## IV. FINDINGS AND RESULTS

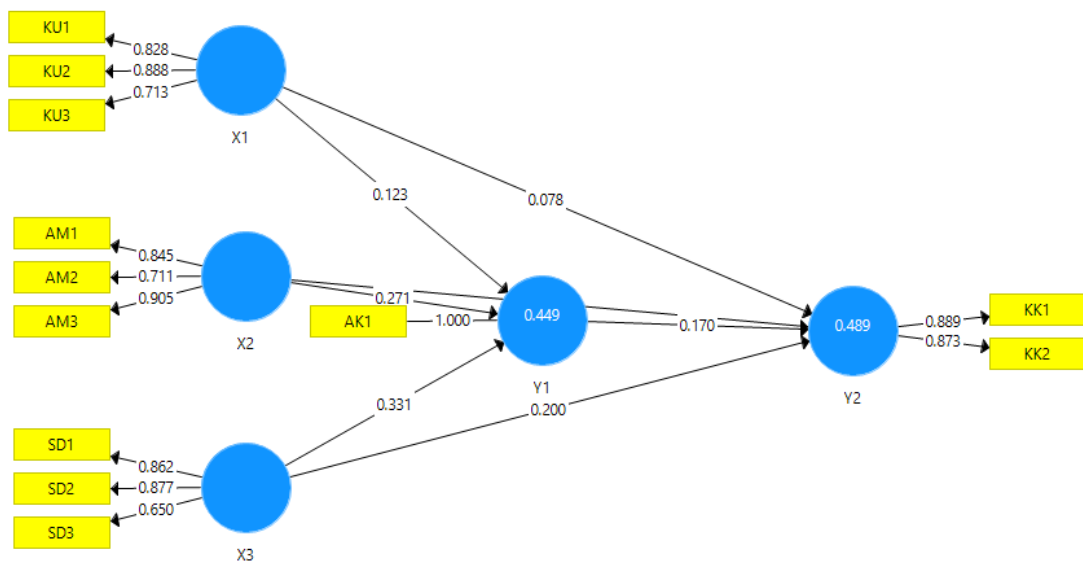
### Evaluation of the Measurement Model (Outer Model)

The measurement model is evaluated by measuring each indicator with the variables used. Measurement is conducted by testing the validity and reliability of the model. Validity testing aims to determine the indicators given in the question are following the provisions in each variable. Validity testing consists of two types of tests, namely convergent validity testing and discriminant validity testing. Reliability testing is used to show the level of consistency and stability of the measuring instrument.

#### Validity Test

Convergent validity testing was conducted by looking at the loading factor values contained in the model. Reference [17] suggests that an indicator has a high level of convergent validity if it has a loading factor value greater than 0.60. Figure 3 determines of measurement of the loading factor. Based on Figure 3, it can be explained that the loading factor value of each indicator in each variable shows a number more than 0.6. This indicates that each indicator in the variables of business characteristics, management administration, resources, access to loans, and financial performance is in accordance with the provisions of validity.

In addition to the loading factor, the Average Variance Extracted (AVE) value is the other indicator to measure convergent validity. Fornel and Larcker (1981) in [17] explain that the required AVE value must be greater than 0.5. The standard AVE value means that more than half of the variance of the indicators listed in the research model can be explained by the latent variables. Table 2 presented The AVE value in this model.



**Figure 3.** Measurement of the Loading Factor

**Table 2. Convergent Validity Assessment**

Variable	Average Variance Extracted (AVE)
Business Characteristic	0.661
Management Administration	0.679
Resources	0.645
Loan Access	1.000
Financial Performance	0.776

The discriminant validity test is another validity test after testing the convergent validity. This test aims to ensure that the indicator results are by the requirements. The indicator observed in this test is the value of cross-loading. An indicator met discriminant validity if the value of the cross-loading on the variable is the largest compared to other variables. Table 3 shows the results of the research cross-loading test. The correlation value of the variable with its indicators is greater than the correlation value with other variables. Therefore, the variables and indicators used in this study have met discriminant validity.

**Table 3. Cross Loading Test Results**

Indicators	X1	X2	X3	Y1	Y2
KU1	0.8279	0.6061	0.6255	0.4724	0.4597
KU2	0.8883	0.6677	0.7347	0.5193	0.5139
KU3	0.7130	0.3643	0.4022	0.3407	0.3639
AM1	0.6233	0.8445	0.6815	0.5504	0.5322
AM2	0.3873	0.7112	0.5323	0.3612	0.3587
AM3	0.6478	0.9052	0.7512	0.5886	0.6815
SD1	0.6947	0.6924	0.8625	0.6126	0.5420
SD2	0.6416	0.6751	0.8772	0.5688	0.6052
SD3	0.4005	0.5847	0.6499	0.2973	0.3551
AK1	0.5553	0.6225	0.6405	1.0000	0.5524
KK1	0.4962	0.6228	0.5608	0.4858	0.8893
KK2	0.4809	0.5375	0.5676	0.4878	0.8725

#### Reliability Test

The reliability test indicators are Cronbach's Alpha and Composite Reliability values. This value reflects the reliability of the model. The minimum Cronbach's Alpha value that meets the reliable criteria is more than 0.7. The minimum Composite Reliability value that meets the reliable criteria is 0.6. Table 4 shows the research reliability test. Based on the table, all variables in the study met the reliable criteria.

**Table 4. Reliability Test Results**

Variable	Cronbach's Alpha	Composite Reliability
Business Characteristic	0.742	0.853
Management Administration	0.766	0.863
Resources	0.727	0.843
Loan Access	1.000	1.000
Financial Performance	0.712	0.874

#### Evaluation of the Structural Model (Inner Model)

Structural model testing or the inner model aims to determine the relationship between latent variables. Evaluating the hypothetical structural model of the variables is the way to evaluate the structural model. Bootstrapping method on Smart PLS determines standard errors, path coefficients, and t-statistics values. Table 5 shows the evaluation of the structural model of research.

**Table 5. Structural Model Evaluation Results**

Path coefficients	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
X1 -> Y1	0.1228	0.1181	0.1276	0.9619	0.3366
X1 -> Y2	0.0781	0.0819	0.1125	0.6944	0.4877
X2 -> Y1	0.2712	0.2747	0.1349	2.0105	0.0449
X2 -> Y2	0.3393	0.3241	0.1414	2.3997	0.0168
X3 -> Y1	0.3310	0.3334	0.1272	2.6027	0.0095
X3 -> Y2	0.2003	0.2138	0.1390	1.4405	0.1504
Y1 -> Y2	0.1695	0.1731	0.1308	1.2965	0.1954

## V. DISCUSSION

In this study, for the 95% confidence level (alpha 5 percent), the t-table value for the two-tailed hypothesis is > 1.96. The data shows that there are three hypotheses with t-statistics values are greater than 1.96, while the others hypotheses show a t-statistics value of < 1.96. So that it can be seen that from the seven hypotheses proposed there are three hypotheses that have a significant influence and four hypotheses that do not have a significant effect. The explanation of each hypothesis is described as follows:

Characteristics have no significant effect on access to loans. Digital technology, the number of business managers, and the length of business do not have a significant effect on loans access. MSMEs in Tasikmalaya City generally do not use loans from financial institutions in running their business. The source of MSME financing comes from personal capital and informal loans from family or relatives. Reference [1] states that as many as 68% of MSMEs

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use their fund in running their businesses. In addition, Tasikmalaya City MSMEs have not optimally utilized digital technology. Whereas financial institutions generally provide information through online media which is currently widely used. Information related to the existence of a financing program was not obtained optimally, so access to loans was also not optimal. The limited use of digital technology in MSMEs hinders business development [19].

Business characteristics have no significant effect on financial performance. Digital technology, the number of managers, and the length of business did not significantly affect the assets and net income obtained. Digital utilization is closely related to product marketing. MSMEs that use digital technology in selling their products show a positive effect on sales [18]. However, the length of business and the number of managers are not correlated with sales. An MSME can show an increase in financial performance despite the low number of managers and length of business.

Management administration has a significant effect on access to loans. The requirement to obtain a loan, especially for financing from banks, is financial management [8]. Some of the important requirements that must exist are a business license, a detailed profile, accounting documentation, etc. Reference [8] states that in general, MSMEs do not get loans because they are considered unfit. This ineligibility is due to the absence of transparent financial management and adequate financial capacity.

Management administration has a significant effect on financial performance. MSMEs that have a good administrative system can separate their finances from their business finances. The administration that is systematically arranged shows that the management of MSMEs is carried out professionally, so that in the end it affects financial performance. Reference [12] state that the lack of financial management capabilities is the most contributing factor to the failure of MSMEs.

Resources have a significant effect on access to loans. Resources are important for MSMEs in obtaining financing. MSME actors who have good resources show the ease of access to financing. Reference [12] found that lack of education and training will reduce the management ability of MSMEs in South Africa regarding failure in running a business. Resources have no significant effect on financial performance. Resources directly affect loans but indirectly have no effect on net income and total assets owned. Reference [11] explain that managerial competence is measured by the level of education, managerial experience since the first time gaining experience and knowledge about business which has a positive impact on the performance of Small and Medium Enterprises (MSMEs).

Access to loans has no significant effect on financial performance. According [1], capital loans provided to MSMEs should play a role in improving performance. In reality, the loans cannot be used optimally for business development. MSMEs in Tasikmalaya City use loan funds not only for business purposes but also to consume personal needs that causes

the inability of MSMEs to repay loans by applicable regulations. The interviews reveal that all the respondents refer to data availability first before making any decisions. The fourth respondent posited that she would not make any decisions if she could not see any reference data. Even when there was no recent supporting data, the leaders can always find historical data with the similar conditions and use the data as references. With the data, the leaders can then use their intuition to take the best decision based on the intuition.

## VI. CONCLUSION

Based on the findings and results, we confirm that MSMEs need funding assistance to be able to improve their performance and develop their businesses. MSMEs need assistance to ensure the management of loan funds. Loans are focused not on consumptive activities. Calling and providing periodic consultations to MSMEs is one of the ways of formal assistance. Meanwhile, informal assistance is carried out through coaching or an approach from collectors to MSMEs when MSMEs make payments. Financial institutions can provide technical assistance management such as obtaining business permits, managing credit, managing human resources, training in using IT, making business management better, and helping to make MSME business plans.

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