# Small Business Financing: Determinants and Obstacles in the Context of Indonesia

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# Small Business Financing: Determinants and Obstacles in the Context of Indonesia

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### Abstract

This research identifies (1) factors that may affect the decision to have a loan, and identifies the benefits and obstacles faced by small business firms in relation with their financing sources; and (2) investigates what factors drive the SMEs in choosing financing sources and what factors disrupt the SMEs' growth in terms of profits. Using survey methods through questionnaire and interview, this study consists of 2,800 observations throughout South Sumatera-Indonesia-Indonesia.The results reveal that (1)finance is the most important factor in affecting the decision to have a loan; (2) the service provided by the financier/credit sales, the closest location of the financier to their business, the ease of method payment method of payment, the SMEs' visit to the financier's office, the leniency of mortgage requirements, the leniency of terms and conditions imposed by the financier, the interest rate charged and the approach from the financier are factors which considered by the SMEs in choosing source of financing; (3) the limited capital they had, the loss of product quality control, the difficulty in obtaining raw material, the distance of the market location, the lack of qualified employees they had, and the limitations of technology they use to produce their product.are barriers of the SMEs' growth.

**Keywords:** SMEs' financing, SMEs' growth determinants, SMEs' financing obstacles, Financing institution, Indonesia.

## Introduction

The growth of SMEs throughout the region is crucial to regional growth. The small business sector has a significant role in enhancing economic growth in Indonesia. Their contribution has increased for three decades, since the deregulation package launched by the Government of Indonesia in 1983, and nowadays the SMEs sector is one of the contributors to the Indonesian economy. In 2011, Indonesian business confidence was positive and high, according to the survey results conducted by Certified Practicing Accounting (CPA) Australia. The respondents of the survey held overwhelmingly positive views about their growth prospects in the next 12 months. This reflects the very positive view the respondents have on the economy and Indonesia's strong economic data. This confidence is shared fairly evenly between small businesses with differing numbers of employees, with a remarkably high 68 per cent of Indonesian respondents with 10 to 19 employees expecting their business to grow strongly over the coming 12 months. Businesses in other markets should see Indonesia as an opportunity.

Moreover, the International Monetary Fund's (IMF) forecast for Indonesia's GDP growth is 6.4 per cent for 2011 and 6.3 per cent for 2012. The Asian Development Bank's (ADB) forecast is for growth of 6.6 per cent in 2011 and 6.8 per cent in 2012. Both of these forecasts show that the Indonesian economy is growing strongly, which is reflected in the very positive outlook Indonesian small businesses have for the economy and their businesses. However, the main downside risk to the Indonesian economy comes from inflation. IMF forecasted that inflation would increase from 5.7 per cent in 2011 to 6.5 per cent in 2012, whereas the ADB forecasted that inflation would remain steady at 5.4 per cent on average. If core inflation continues its upward trend, then Bank Indonesia may need to increase interest rates (even though it has been cutting rates recently). If global credit conditions worsen, Indonesia may also experience sudden foreign capital outflows as foreign investors repatriate their funds to their home markets.

SMEs play a critical role in providing job opportunities, enhancing the quality of human resources, nurturing a culture of entrepreneurship, fostering creativity and opening up new business opportunities. Flexibility, as well as low start-up and operating costs, has enabled SMEs to spring up, to reposition and adjust themselves quickly in response to market and economic changes. Moreover, they easily expand or contract in a short space of time. SMEs have not only survived the impact of big enterprises and the law of economies of scale but have carved out niches for themselves, which enable them to coexist with big enterprises. However, the most common problems for SMEs are the lack of access to market information and technology, the low quality of human resources and the lack of access to capital. Despite efforts by financial institutions and public-sector bodies to close funding gaps, SMEs continue to experience difficulties in obtaining risk capital. SME borrowing requirements are small and frequently do not appeal to financial institutions. More collateral may be required than SMEs can pledge. Financial institutions may lack expertise in understanding small and medium knowledge-based business. The flexibility in the terms and conditions of financing that SMEs require may not be available. However, the Indonesian government implemented policy to encourage banks to have at least 20% of its portfolio in SMEs. Furthermore, the Indonesian Government, particularly Cooperative and Small-Medium Enterprises Affairs, has significantly contributed to the development of SME sectors through various programs, such as SME training and development programs, bank and financial institution linkages, and partnership programs between small business and big firms.

The confidence that Indonesian businesses have is reflected in the majority of businesses using that borrowing for business growth. In Indonesia, there is not a strong correlation between borrowing for business growth and related reasons (purchasing assets, funding stock purchases and to cover increasing sales). However, it seems incongruous that while 64 percent of Indonesian businesses are borrowing for business growth, 47 percent borrowed for business survival – meaning that there are some small businesses in Indonesia that borrowed for both growth and survival reasons. This could be a cultural factor, with some Indonesian small businesses, regardless of size, equating growth with survival. It is of interest that borrowing to cover increasing expenses featured so prominently. That increasing expenses are up is not a surprise, due to strong inflation in the market, but with a large proportion of small business borrowing to cover those expenses, this may indicate that some small businesses are not passing on their increasing costs to clients. While a business can do this for a short period of time, businesses that continue to bear increasing expenses reduce their profitability and therefore may become less viable over the medium-to long-term. Moreover, lending conditions and the cost of finance became more important reasons in dissuading business from borrowing. Furthermore, higher interest rates, the cost of borrowing and the fear of defaulting on loans, and the procedures to obtain finance from banks have become more prominent factors in not seeking finance.

According to the CPA survey results, there are some reasons for expecting SMEs to obtain funding. The reasons are for business growth (66%), business survival (52%), to cover increasing expenses (22%), to purchase assets (32%), to fund stock purchases (29%), to cover increasing sales

(17%), to cover late payment from debtors (13%), to service increasing cost on bank loans (11%), to cover tax payments (7%), other (5%). However, only 29% of the respondents think that it is easy to borrow. It is also not surprising that many businesses that are expecting difficulty in accessing funding will anticipate such difficulty to affect their cash position. That is, to get around difficulties in accessing external funding, businesses should shift to internal sources of finance, if such money is available.

Banks, not surprisingly, are not the main source of advice on small business financing in Indonesia. Small business firms seek advice from financial advisers for businesses considering seeking external finance, while family and friends are the most prominent source of advice for businesses in Indonesia when they are seeking finance. Furthermore, bank financing may not be the most appropriate form of financing in all situations in Indonesia. Indonesian businesses should be made more aware of the financing options available to them and when they are the most appropriate form of financing.

This study aims to provide some empirical results regarding the relationship between small business finance and microfinance.As mentioned previously, the foundation of the economy depends on small business enterprise' development and growth. Therefore, it is expected that the empirical results obtained in this research will provide:

a. Some new recommendations for government, in particular the local government, to set up a regulation which may support small business enterprises' existence
b. Some information for investors who are interested in investing in small business enterprises
c. An insight into how small business enterprises have survived the economic and financial crisis.
d. A starting point for researchers to examine small business enterprises

Indonesia is a country in Southeast Asia and Oceania. Indonesia has 34 (thirty four) provinces with over 238 million people. Indonesia is an archipelago comprising approximately 17,508 islands; however, there are 5 (five) islands, which are, in terms of size, namely Sumatera Island, Java Island, Kalimantan Island, Sulawesi Island and Papua Island. The capital city of Indonesia is Jakarta.

**Figure 1:** Map of Indonesia

Sumatera Island has 8 (eight) provinces, including South Sumatera-Indonesia. Amongst those 8 provinces, South Sumatera-Indonesia is the biggest province after North Sumatera. Geographically, Sumatera Selatan Province is located between 1 to 4 degrees south latitude and between 102 to 106 degrees east longitude, with a total area of 8,702,741 hectares. This province is located adjacent to Jambi province in the north, Lampung province in the south, Bangka Belitung province in the east and Bengkulu province in the west.

**Figure 2:** Map of Sumatera Island


The Province of South Sumatera-Indonesia is located towards the southern end of Sumatera Island and had 7.5 million inhabitants in 2011. Palembang is the capital city of South Sumatera-Indonesia, which is one-hour flight to the capital of Indonesia, Jakarta. This makes Palembang city is one of the biggest and busiest capital cities after Jakarta, Surabaya and Medan. There are four autonomous cities and eleven regencies. Every city/regency has its own characteristics and local language.

The agriculture sector has an important role in the economic development of Sumatera Selatan-Indonesia. This sector was in the third position, being the sector that contributed the most to the economy after manufacturing and mining industries. The contribution of the agricultural sector to Gross Regional Domestic Product (GRDP) was 17.28 percent, or in nominal was 31.42 trillion rupiahs (at current market prices). The scope of agricultural undertakings in this province covers several kinds of activities. Hence, in order to show detailed data in agriculture, it is classified into several sub sectors, which are food crops, estates, forestry, animal husbandry, and fisheries. The vast area as well as the supportive condition of land in Sumatera Selatan to grow estate crops had led this province to develop a promising proliferation of estates. Besides those managed and cultivated by a state estate company, such as PTP Nusantara, there are also estates owned and cultivated by smallholders. Smallholder estates produce rubber, coffee, oil palm and others.

Sumatera Selatan-Indonesia also has a large amount of activity in mining and quarrying sectors. Prominent mining materials produced by this region consisted of crude oil, natural gas and coal. Furthermore, there is also andesite, clay, and limestone. Crude oil and natural gas were explored in Muara Enim, Lahat, OKU and Prabumulih, whereas coal sites were located in Muara Enim dan Lahat. Moreover, Sumatera Selatan has a large potential for tourism. It is expected to become one of the strengths in providing a reliable source of income in the region. To achieve this goal, local government has been trying out a variety of integrated policies on tourism.

The Statistics Bureau Office has classified the manufacturing industry into three categories only, based on the number of employees engaged in a manufacturing company. Those categories are large and medium scale industries, small scale industries, and household manufacturing industries. A company is classified into a large-scale industry if the number of workers engaged is greater than 100 persons. Medium scale ones employ between 20 and 99 workers. Small-scale establishments have employees between 5 and 19 persons. For household manufacturing establishments, the numbers of employee are up to 4 persons. The manufacturing sector is the largest contributor to the economy of South Sumatera-Indonesia-Indonesia. In 2011, the role of this sector to the GDP formation amounted to 20.6 percent, or may be more than one-fifth of the economy of South Sumatera-Indonesia-Indonesia supported by this sector. In 2011, the processing industry sector grew by 5.76 percent, faster than the growth in 2010. The high growth is due to the SEA Games in Palembang VVXI in late 2011, which drove almost all sectors of the economy, especially the processing industry.

Micro and small firm industry is one component of the processing industry sector contributing substantially in employment creation and welfare in South Sumatera-Indonesia-Indonesia. The rate of growth of micro and small industry sectors for the year 2011 fluctuated considerably. After experiencing positive growth in the first and second quarter, venture IMK slowed to 9.68 percent growth in the third quarter. This is due to there being businesses that closed down or temporarily ceased production, where as in the fourth quarter, the business grew by 3.3 percent. Results of a micro and small industry survey in 2011 conducted by the government revealed there were as many as5, 276 companies/SMEs in South Sumatera-Indonesia-Indonesia. About 92.33 percent of SMEs employed 1 to 4 employees, while 4,25% employed 5 to 19 employees. SMEs could be an alternative if the formal sectors are no longerable to accommodate the workforce. SMEs' empowerment is expected to improve the economy for most people. SMEs are important not only because this sector serves as a provider of jobs, but also it eliminates the poverty gap.

The purpose of this research is to (1) identify factors that may affect the decision to have a loan, and identifies the benefits and obstacles faced by small business firms in relation to its financing sources; (2) investigate what factors drive the SMEs in choosing financing sources and what factors disrupt the SMEs' growth in terms of profits.

## Literature Review

A large body of literature has shown that small firms experience difficulties in accessing the credit market. This may be due to the fact that small businesses are likely to suffer most from information and incentive problems, limiting their ability to obtain external finance. Various literatures examine the link between firm growth and finance, and it seems that small companies have higher growth-cash flow sensitivities than large ones, indicating that external finance constraints may prevent small and medium-sized firms from fully exploiting their growth potential. Furthermore, smaller firms suffer from financial constraints while larger firms do not (Bond & Meghir, 1994; Fazzari, Hubbard, & Petersen, 1988; Hoshi, Kashyap, & Scharfstein, 1991; Hubbard, 1998). According to experience of economic conditions, most of the empirical evidence is consistent with the idea that monetary policy contractions and banking crises adversely affect small businesses, in particular because they have no access to sources of finance other than bank loans (Gertler & Gilchrist, 1994).

Small businesses appear to have a limited geographical access to finance. A growing literature argues that distance matters in the provision of funds, especially for small firms. Petersen and Rajan (2002), for instance, provide evidence for the importance of distance in the provision of bank credit to small firms. Likewise, Lerner (1995) documents the importance of distance in the venture capital market. The immediate impact of distance on small firms is that their capital structure and debt capacity are determined by the conditions offered on local financial markets, given that they can only borrow locally. Developments in local markets - such as those experienced in many countries over the 1990s with waves of bank consolidation – may have strong effects on the supply of finance to small firms. Against this background, this paper provides a thorough analysis of small business finance in Indonesia.

Informational asymmetries between small firms and banks may be so pronounced that profitable investment opportunities are not financed (Berger & Udell, 2006; Petersen & Rajan, 1994). Small enterprises may mitigate this problem by posting collateral or building close relationships with lenders. Nevertheless, these solutions are of little help to firms which lack collateral or credit history. The consequences of guarantee requirements for the cost and availability of bank financing have been examined in numerous theoretical and empirical studies (Smith & Warner, 1979; Stulz & Johnson, 1985). Furthermore, banks can overcome these asymmetries through relationship lending, or at least mitigate their effects by asking for collateral. Small firms, especially if they are young, have little collateral and short credit histories, and thus may find it difficult to raise funds from banks.

The private equity and debt markets that fund SMEs are different from the public markets that provide funding to transparent and well-known large businesses. In contrast to the public markets, the private markets are characterized by relationships, tailored financing solutions, combinations of explicit and implicit contracts and private information production and monitoring. These are market responses to the informational opacity and to asymmetric information that arises, because the insiders of a firm typically know more than outside investors about the likelihood of the firm making a breakthrough or going bankrupt (adverse selection). They also are market responses to the frictions that arise, because neither firms nor financiers can commit not to behaving opportunistically (moral hazard).

Financial intermediaries (FIs), such as banks, finance companies, insurance companies and venture capital firms, play a special role as information producers in the private markets. Their specialized information production and monitoring are an important means of addressing the problems of adverse selection and moral hazard and to assessing the quality of SMEs. How efficiently they perform the tasks determines FIs' ability to channel external finance to firms, be it equity or debt. Other sources of external finance, such as trade credit, private persons and family finance, are also important, as they may have a comparative advantage in providing finance to some of the most opaque SMEs. The comparative advantage of these other sources of external finance is, however, based on their natural relationships and interaction with the SMEs rather than on specialization. Trade credit, for example, is a funding mechanism in which some firms act as intermediaries channelling funds from the financial institutions to their peers (Demirgüç-Kunt & Maksimovic, 2001).

Blackburn, Hart and Wainwright (2013) investigate factors that influence SMEs' performance, in particular growth in the United Kingdom, using a logit regression over 360 observations. They suggest that size and age of enterprise dominate the performance and are more important than strategy and the entrepreneurial characteristics of the owner. Moreover, there is substantial evidence that small firms have less access to formal sources of external finance (Beck & Demirguc-Kunt, 2006; Kuntchev, Ramalho, Rodrigues-Meza & Yang, 2012). Access to finance becomes increasingly problematic as the scale of the business decreases and iIt is also similar to what is observed in developed and other developing countries (Beck, Demirguc-Kunt, Laeven & Maksimovic, 2006).In Indonesia, there has been considerable effort in investigating the SME sector, including their financing sources. The majority of the previous studies conducted only describe the data they obtained from the survey (both questionnaire and interview). Anonymous (2006) conducted a study of SMEs in four provinces in Indonesia, which are West Sumatera, South Sumatera-Indonesia, East Java, West Nusa Tenggara, West Kalimantan and South Sulawesi. Though the scope of the study is wider, they give no number of samples used as the observation. The result of this study only reveals the problem encountered by the SMEs and the possible solutions based on the problem found.

The SMEs tend to produce similar products that form a cluster. Clusters of SMEs are common in Indonesia, particularly in the processing industry and manufacturing industry. This clustering tends to emerge in small towns and villages or in confined parts of larger cities. For example, in the capital city of South Sumatera-Indonesia, Palembang, the centre of rotan handicraft, is located in 3 ilir region. In this area, you may see along the road a number of rotan producers and sellers. Another example is the tenun songket handicraft, which located in seberang ulu in Palembang, ukiran Palembang, which is located behind holy mosque area. This clustering phenomenon also exists in other cities and regencies of South Sumatera-Indonesia. For example, in Ogan Komering Ilir Regency (OKI), the songket tenun is located in Pematang Kijang and Pematang Buluran, Pempek is located in Paku, Anyaman is located in Pedamaran, and many other centers of SMEs.

In conclusion, there are a number of common problems revealed by previous studies in Indonesia. These common problems are lack of capital, human resources, technology and information, difficulties in procuring raw material, weak marketing and distribution capacity, high transportation costs, and complicated and costly bureaucratic procedures (particularly in obtaining licences to operate). These common problems are often referred to as external constrains to the SME's growth. This study attempts not only to investigate these common problems but also to examine to what extent these commons problems impact on the SMEs. Moreover, the gender is examined in this study to provide some insight into whether a female owner is better in managing the SMEs when they have a loan.Overall, the majority of the empirical studies conducted in Indonesia so far provide only a description of the problem encountered by the SMEs, without exploring to what extent all variables investigated contribute/impact on the SMEs.

## Methodology

### Data

This research employs a survey method used (1) a structured and semi-structured questionnaire, (2) in-depth interviews. Questionnaire surveys have been the preferred choice for the collection of data in studies involving the investigation of the capital structure of both large and small firms. Graham and Harvey (2001) used a questionnaire in the collection of data to test several aspects of corporate finance, including the capital structure issue. Tucker and Lean (2003) undertook a questionnaire survey to collect data concerning small business awareness and use of informal finance and to identify issues concerning difficulties encountered in gaining access to finance. Moreover, Houssain, Millman and Matlay (2006) conducted a survey using a semi-structured questionnaire to analyse differences in the choice of funds employed between the UK and Chinese small firms. Additional data are obtained through government publications from Indonesian Statistics Office, Indonesian Bank, Cooperative and Small Business Enterprises Department, Planning and Development Affairs Office.

### Variables

The survey questions were about firms' basic characteristics (such as age), product market environment, ownership structure, creditors, innovation activity, etc. To cover this broad set of questions, the survey is divided into four main parts. For each section, there are a series of questions provided (questionnaire and interview questions). These four sections are as follow:

- General information
- Factors in choosing source of financing
- Factors disrupting business growth
- SMEs' perception on the establishment of new microfinance

Furthermore, all the questions in the survey asked the respondent to provide the interviewer with either quantitative data or a "Yes/No"-answer, "agree/disagree" answer and also some support explanation from the respondent. The time we had to spend on the interview process for each respondent was about 45 minutes to 75 minutes, depending the situation faced during the interview process.

**Sampling Design**

To choose the final observation samples in this study, there are some steps that we employed. The stages of final sample selection are as follow:

**1. City and Regency in South Sumatera-Indonesia-Indonesia**

We want to capture all SMEs that can represent each region in the Province of South Sumatera-Indonesia. Therefore, we use *"Cluster Sampling"* to ensure that the sample used is a representative of the population. Cluster sampling is a sampling unit with which one or more listing units can be associated. The unit can be geographic, temporal, or spatial in nature. The reasons cluster sampling is used in this study are feasibility and economy. This sampling is the only feasible method of sampling, because the only sampling frames readily available for the target populations are lists of clusters. Purposive sampling is a sampling unit in which individuals are selected who are considered to be most representative of the population as a whole.

The observation sample is all small business enterprises both registered and unregistered in South Sumatera-Indonesia, Indonesia. There are 15 regions under the South Sumatera-Indonesia Provincial Government. Though all regions' location distance differs from one region to another region, all regions are included in the observation.

**2. Location of the Sub-District**

Due to the time, the location distance and the budget constraints, after choosing all regions, we decided to employ Judgemental Sampling as we were unable to survey all SMEs in each city and each regency. From each city/regency which has been selected as observation samples, then we use judgemental sampling technique to determine the sub-districts. The sub-districts which were chosen as samples are (1) the sub-district which is the capital city for each city/regency, (2) the sub-districts which potentially have more SMEs.

**3. Location of the Respondents**

From the sub-districts that were selected as samples, then we use incidental sampling technique to choose the respondents.

Judgemental sampling and incidental sampling are forms of non-random sampling in which decisions concerning the individuals to be included in the sample are taken by the researcher, based upon a variety of criteria, which may include specialist knowledge of the research issue, or capacity and willingness to participate in the research.

The sub-districts for every city/regency used in this study are provided in Table 1.

Before we conducted the survey, we had contacted related offices, such as the Small Business and Cooperative Affair Office, the Industrial and Trading Affair Office, Planning and Development Affair Office and Statistics Bureau Office, in every regency to request information regarding SMEs. The information that we requested were lists of formal and non-formal SMEs, including SMEs types, list of microfinance institutions and regency profile.

After having the list of information required, we proceeded to map the survey area for every regent. There are some considerations we used to choose the sub-district for every regent. First, we choose the capital of every regent as one of the survey areas; second, we choose sub-district and villages that close to the regent capital city.Therefore, the survey areas were chosen by purposive sampling.

**Table 1:** City/regent and its sub-districts list

| No. | City/Regent | No | Sub-District | | No | City/Regent | No. | Sub-District | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | OKU Regent | 1 | Sosoh Buay Rayap | | 3 | Muara Enim Regent | 16 | Sungai Rotan | |
| | | 2 | Pengandonan | | | | 17 | Lembak | |
| | | 3 | Peninjauan | | | | 18 | Penukal Utara | |
| | | 4 | West Baturaja | v | | | 19 | Benakat | |
| | | 5 | East Baturaja | v | | | 20 | Abab | |
| | | 6 | Ulu Ogan | | | | 21 | Kelekar | |
| | | 7 | Semidang Aji | v | | | 22 | Muara Belida | |
| | | 8 | Lubuk Batang | | 4 | Lahat Regent | 1 | Tanjung Sakti Pumu | |
| | | 9 | Lengkiti | | | | 2 | Jarai | v |
| | | 10 | Sinar Peninjauan | | | | 3 | Kota Agung | |
| | | 11 | Lubuk Raja | | | | 4 | Pulau Pinang | |
| | | 12 | Muara Jaya | | | | 5 | Merapi Barat | |
| 2 | OKI Regent | 1 | Tanjung Lubuk | v | | | 6 | Lahat | v |
| | | 2 | Pedamaran | v | | | 7 | Pajar Bulan | |
| | | 3 | Mesuji | | | | 8 | Mulak Ulu | |
| | | 4 | Kayu Agung | v | | | 9 | Kikim Selatan | |
| | | 5 | Sirah Pulau Padang | | | | 10 | Kikim Timur | |
| | | 6 | Tulung Selapan | | | | 11 | Kikim Tengah | |
| | | 7 | Pampangan | | | | 12 | Kikim Barat | |
| | | 8 | Lempuing | v | | | 13 | Pseksu | |
| | | 9 | Air Sugihan | | | | 14 | Gumay Talang | |
| | | 10 | Sungai Menang | | | | 15 | Pagar Gunung | |
| | | 11 | Jejawi | | | | 16 | Merapi Timur | |
| | | 12 | Cengal | | | | 17 | Tanjung Sakti Pumi | |
| | | 13 | Pangkalan Lampam | | | | 18 | Gumay Ulu | |
| | | 14 | Mesuji Makmur | v | | | 19 | Merapi Selatan | |
| | | 15 | Mesuji Raya | v | | | 20 | Tanjung Tebat | |
| | | 16 | Lempuing Jaya | v | | | 21 | Muara Payang | |
| | | 17 | Teluk Gelam | | 5 | Musi Rawas Regent | 1 | Tugumulyo | v |
| | | 18 | Pedamaran Timur | | | | 2 | Muara Lakitan | v |
| 3 | Muara Enim Regent | 1 | Tanjung Agung | | | | 3 | Muara Kelingi | |
| | | 2 | Muara Enim | v | | | 4 | Rawas Ilir | |
| | | 3 | Rambang Dangku | | | | 5 | Rawas Ulu | |
| | | 4 | Gunung Megang | | | | 6 | Ulu Rawas | |
| | | 5 | Talang Ubi | | | | 7 | Rupit | v |
| | | 6 | Gelumbang | v | | | 8 | Jayaloka | v |
| | | 7 | Lawang Kidul | | | | 9 | Muara Beliti | v |
| | | 8 | Semende Darat Laut | | | | 10 | STL Ulu Terawas | |
| | | 9 | Semende D.Tengah | | | | 11 | Selangit | |
| | | 10 | Semende Darat Ulu | | | | 12 | Megang Sakti | |
| | | 11 | Ujan Mas | v | | | 13 | Purwodadi | |
| | | 12 | Tanah Abang | | | | 14 | BTS Ulu | |
| | | 13 | Penukal | | | | 15 | Karang Jaya | |
| | | 14 | Lubai | | | | 16 | Nibung | |
| | | 15 | Rambang | | | | 17 | Karang Dapo | v |

**Source**: Indonesia Statistics Bureau, 2013

**Table 2:** City/regent and its sub-districts list

| No. | City/Regent | No | Sub-District | | No | City/Regent | No. | Sub-District | |
|---|---|---|---|---|---|---|---|---|---|
| 5 | Musi Rawas Regent | 18 | Tiang PK | | 8 | East OKU Regent | 11 | Bunga Mayang | |
| | | 19 | Sumber Harta | v | | | 12 | Buay Madang Timur | |

**Table 2:** City/regent and its sub-districts list - continued

| | | | | |
|---|---|---|---|---|
| | | 20 | Tuah Negeri | |
| | | 21 | Suka Karya | |
| 6 | Musi Banyuasin Regent | 1 | Sekayu | v |
| | | 2 | Lais | v |
| | | 3 | Sungai Keruh | |
| | | 4 | Batang Hari Leko | |
| | | 5 | Sanga Desa | |
| | | 6 | Babat Toman | v |
| | | 7 | Sungai Lilin | v |
| | | 8 | Keluang | |
| | | 9 | Bayung Lencir | v |
| | | 10 | Plakat Tinggi | |
| | | 11 | Lalan | |
| | | 12 | Tungkal Jaya | |
| | | 13 | Lawang Wetan | |
| | | 14 | Babat Supat | |
| 7 | Banyuasin Regent | 1 | Banyuasin I | |
| | | 2 | Banyuasin II | |
| | | 3 | Banyuasin III | v |
| | | 4 | Pulau Rimau | |
| | | 5 | Betung | |
| | | 6 | Rambutan | |
| | | 7 | Muara Padang | |
| | | 8 | Muara Telang | |
| | | 9 | Makarti Jaya | |
| | | 10 | Talang Kelapa | v |
| | | 11 | Rantau Bayur | |
| | | 12 | Tanjung Lago | |
| | | 13 | Muara Sugihan | |
| | | 14 | Air Salek | |
| | | 15 | Tungkal Ilir | |
| | | 16 | Suak Tapeh | |
| | | 17 | Sembawa | v |
| 8 | East OKU Regent | 1 | Martapura | v |
| | | 2 | Buay Madang | |
| | | 3 | Belitang | v |
| | | 4 | Cempaka | |
| | | 5 | Buay Pemuka Peliung | |
| | | 6 | Madang Suku II | |
| | | 7 | Madang Suku I | |
| | | 8 | Semendawai Suku III | |
| | | 9 | Belitang II | |
| | | 10 | Belitang III | |
| | | 13 | Madang Suku III | |
| | | 14 | Semendawai Barat | |
| | | 15 | Semendawai Timur | |
| | | 16 | Jayapura | |
| | | 17 | Belitang Jaya | |
| | | 18 | Belitang MR | |
| | | 19 | Belitang Mulya | |
| | | 20 | BP Bangsa Raja | |
| 9 | Ogan Ilir Regent | 1 | Muara Kuang | v |
| | | 2 | Tanjung Batu | v |
| | | 3 | Tanjung Raja | v |
| | | 4 | Indralaya | v |
| | | 5 | Pemulutan | v |
| | | 6 | Rantau Alai | |
| | | 7 | Indralaya Utara | |
| | | 8 | Indralaya Selatan | |
| | | 9 | Pemulutan Selatan | |
| | | 10 | Pemulutan Barat | |
| | | 11 | Rantau Panjang | |
| | | 12 | Sungai Pinang | v |
| | | 13 | Kandis | |
| | | 14 | Rambang Kuang | |
| | | 15 | Lubuk Keliat | |
| | | 16 | Payaraman | |
| 10 | Empat Lawang Regent | 1 | Muara Pinang | |
| | | 2 | Pendopo | |
| | | 3 | Ulu Musi | |
| | | 4 | Tebing Tinggi | v |
| | | 5 | Lintang Kanan | |
| | | 6 | Talang Padang | |
| | | 7 | Pasemah Air Keruh | |
| | | 8 | Sikap Dalam | |
| 11 | Palembang City | 1 | Ilir Barat II | v |
| | | 2 | Seberang Ulu I | v |
| | | 3 | Seberang Ulu II | v |
| | | 4 | Ilir Barat I | v |
| | | 5 | Ilir Timur I | v |
| | | 6 | Ilir Timur II | v |
| | | 7 | Sukarami | v |
| | | 8 | Sako | v |
| | | 9 | Kemuning | v |
| | | 10 | Kalidoni | v |
| | | 11 | Bukit Kecil | v |

Source: Indonesia Statistics Bureau, 2013

**Table 3:** City/regent and its sub-districts list

| No. | City/Regent | No | Sub-District | | No | City/Regent | No. | Sub-District | |
|---|---|---|---|---|---|---|---|---|---|
| 11 | Palembang City | 12 | Gandus | v | 12 | South OKU Regent | 18 | Tiga Dihaji | |
| | | 13 | Kertapati | v | | | 19 | Buay Rawan | |

**Table 3:** City/regent and its sub-districts list - continued

| | | | | |
|---|---|---|---|---|
| | | 14 | Plaju | v |
| | | 15 | Alang-alang Lebar | v |
| | | 16 | Sematang Borang | v |
| 12 | South OKU Regent | 1 | Muara Dua | v |
| | | 2 | Pulau Beringin | |
| | | 3 | Banding Agung | |
| | | 4 | Muara Dua Kisam | v |
| | | 5 | Simpang | |
| | | 6 | Buay Sandang Aji | |
| | | 7 | Buay Runjung | |
| | | 8 | Mekakau Ilir | |
| | | 9 | Buay Pemaca | |
| | | 10 | Kisam Tinggi | |
| | | 11 | Kisam Ilir | |
| | | 12 | BPR Ranau Tengah | |
| | | 13 | Ranau Selatan | |
| | | 14 | Runjung Agung | |
| | | 15 | Sungai Are | |
| | | 16 | Sindang Danau | |
| | | 17 | Buana Pemaca | |

| | | | | |
|---|---|---|---|---|
| 13 | Lubuk Linggau City | 1 | Lubuk Linggau Timur I | v |
| | | 2 | Lubuk Linggau Barat I | v |
| | | 3 | Lubuk Linggau Selatan I | v |
| | | 4 | Lubuk Linggau Utara I | v |
| | | 5 | Lubuk Linggau Timur II | |
| | | 6 | Lubuk Linggau Barat II | v |
| | | 7 | Lubuk Linggau Selatan II | v |
| | | 8 | Lubuk Linggau Utara II | v |
| 14 | Prabumulih City | 1 | Prabumulih Barat | v |
| | | 2 | Prabumulih Timur | v |
| | | 3 | Cambai | v |
| | | 4 | Rambang Kpk Tengah | |
| | | 5 | Prabumulih Utara | v |
| | | 6 | Prabumulih Selatan | v |
| 15 | Pagar Alam City | 1 | Pagar Alam Utara | v |
| | | 2 | Pagar Alam Selatan | v |
| | | 3 | Dempo Utara | |
| | | 4 | Dempo Selatan | |
| | | 5 | Dempo Tengah | |

Source: Indonesia Statistics Bureau, 2013

## Population and Sample

The population in this study is all small business enterprises in the Province of South Sumatera-Indonesia, Indonesia. The Province of South Sumatera-Indonesia consists of 4 autonomous cities and 11 regencies. Those 15 cities and regents are shown in Table 4.

We had attempted to seek information regarding the total number of SMEs in each city/regency from both the provincial official authorities and the local official authorities. Unfortunately, we were unable to obtain neither an exact number of the total SMEs nor the consistency of the data provided by the authorities. We also were unable to obtain the debtors' information from The Indonesian Bank due to the confidentiality of the data.

Therefore, we decided to have as close as 3.000 respondents that we can collect from all over South Sumatera-Indonesia. In the end we only can collect 2,800 SMEs over South Sumatera-Indonesia Province. However, from 2,800 SMEs, only 2,198 SMEs used debt to finance their business and there were 25 missing responses; therefore, only 2,198 are used in the regression analysis. The 25 missing responses were due to the incomplete answers provided. The people interviewed were mostly the SME owners.

The total number of respondents obtained from each city/regency is calculated proportionately based on the sub-districts for each city/regency. The detail of the sample acquired from each city/regent is shown in the Table 4.

**Table 4:** Population and sample used

| No. | Cities and Regencies | Capital of the city and/or regency | Sub-district used as samples | Respondents Obtained |
|---|---|---|---|---|
| 1 | Palembang City | Palembang | 16 | 649 |
| 2 | Ogan Ilir Regency | Indralaya | 6 | 243 |
| 3 | Ogan Komering Ilir Regency | Kayuagung | 7 | 284 |
| 4 | Ogan Komering Ulu Regency | Baturaja | 3 | 122 |
| 5 | Ogan Komering Ulu Timur Regency | Martapura | 2 | 81 |
| 6 | Ogan Komering Ulu Selatan Regency | Muara Dua | 2 | 81 |

**Table 4:** Population and sample used - continued

| | | | | |
|---|---|---|---|---|
| 7 | Prabumulih City | Prabumulih | 5 | 203 |
| 8 | Muara Enim Regency | Muara Enim | 3 | 122 |
| 9 | Lahat Regency | Lahat | 2 | 81 |
| 10 | Pagar Alam City | Pagar Alam | 2 | 81 |
| 11 | Empat Lawang Regency | Tebing Tinggi | 1 | 41 |
| 12 | Lubuk Linggau City | Lubuk Linggau | 6 | 243 |
| 13 | Musi Rawas Regency | Muara Beliti | 7 | 284 |
| 14 | Musi Banyuasin Regency | Sekayu | 5 | 203 |
| 15 | Banyuasin Regency | Pangkalan Balai | 2 | 81 |
| **Total** | | | **69** | **2.800** |

**Source**: Varoius reliable sources (various related government office)

## Data Collection Process in the Survey Methods

The survey took place between early January and the end March 2013 (for almost three months). Before conducting the survey, we developed a protocol, pre-test and pilot testing of the questionnaire. In the protocol process, we wrote step-by step instructions for study procedures, then we did the pre-test by practising questionnaire drafts on ourselves and a few clients, and the last process is where we did the pilot testing by distributing the questionnaire to 100 SMEs in Palembang City in a few sub-districts.

After having the pilot testing results, we realised that there were some questions in our questionnaire that had to be amended due to inconsistency of questions provided and the numbering of the questions. Furthermore, to minimise the effects of non-response, we compensated participants by giving them a small gift (calculator).

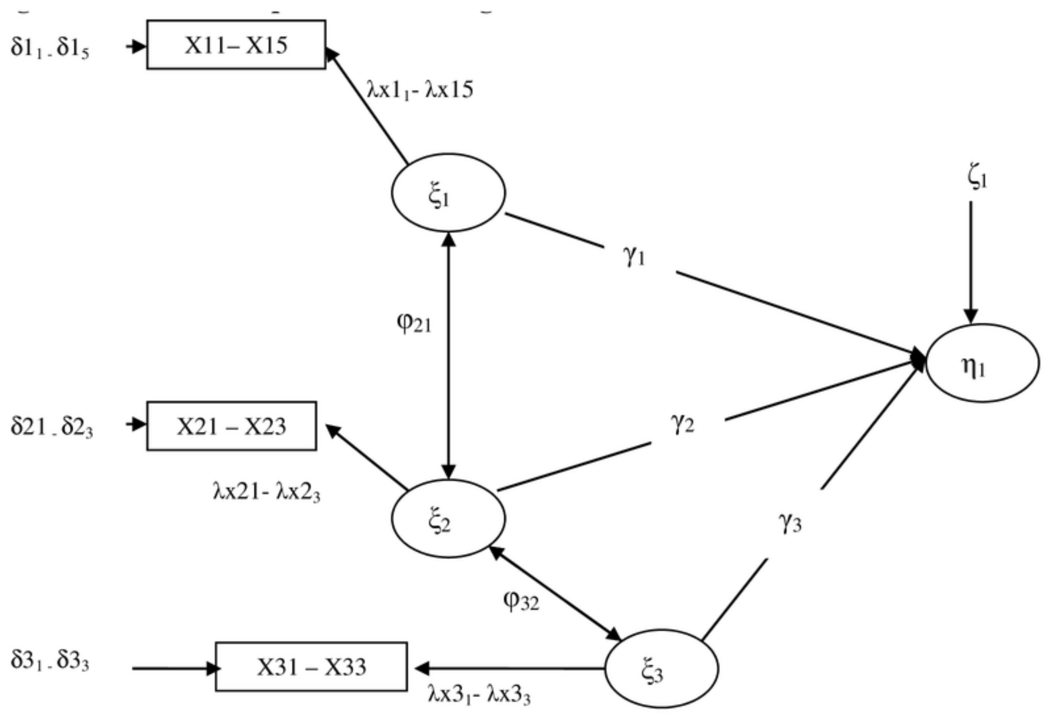
Training for additional technical staff for data collection was provided prior to the data collection commencement. Moreover, all additional technical staffs come from mostly university students, and they were professionally hired in assisting of the survey, which included the interviews and questionnaires distribution.

## Model Analysis

A confirmatory factor and structural equation modelling analysis are employed. Furthermore, the findings of this study are divided into two sections. First, Structural Equation Modelling (SEM) result, and second confirmatory factor analysis result. The use of SEM and CPA is aimed at exploring (1) factors that may affect the decision of having a loan, and the benefits and obstacles faced by small business firms in relation to their financing sources, (2) factors drive the SMEs in choosing financing sources and factors disrupt the SMEs' growth in terms of profits.

The equation below is a starting point for this study to explore (1) factors that may affect the decision in having a loan, and the benefits and obstacles faced by small business firms in relation with its financing sources, (2) factors which drive the SMEs in choosing financing sources, and factors which disrupt the SMEs' growth in terms of profits.

**Figure 3**: Structural equation modelling




Where:

$\xi_1$ = Exogen latent of financial, X11 – X15 = indicators.
$\xi_2$ = Exogen latent of marketing, X21 – X23= indicators.
$\xi_3$ = Exogen latent of human resource, X31 –X33= indicators.
$\eta_1$ = Endogen variable of loan
$\delta_{11}$ - $\delta_{313}$ = *error* of exogen variables $\xi_1$, $\xi_2$, $\xi_3$
$\beta$ = path coefficient among endogen latent variable
$\gamma$ = path coefficient among exogen latent variable and endogen variable
$\varphi$ = path coefficient among exogen latent variables
$\lambda$ = path coefficient among latent variables with its indicators
$\zeta$ = error of endogoen latent variable

## Findings

This section is divided into two parts. The first section provides the descriptive results from the questionnaire; the second section provides a structural equation modelling and a confirmatory factor analysis.

### Descriptive Results from the Questionnaire

### Factors in Choosing Source of Financing

Table 5 shows factors preferred by the respondents (SMEs) in choosing additional funding (loan). From the total respondents, 62.9 percent considered the location of the financier, 81.5 percent considered the mortgage required, 88.9 percent considered interest rates charged, 83.8 percent considered terms and conditions imposed by the financier, 76 percent considered method of loan payment, 64.3 percent considered service and hospitality of the credit sales, 69.1 percent considered direct visit to the financier's office, and 64.1 percent considered credit sales offering to their business place. In conclusion, the interest rates charged (88.9 percent), terms and conditions imposed by the financier (83.8 percent) and the mortgage required (81.5 percent) are the three most important factors for the SMEs (respondents) in choosing the source of financing.

The interest rate charged is an important matter for SMEs, due to the uncertainty of their business cycle. Therefore, the SMEs are afraid of being unable to pay the monthly payment if the rates are considered high. Moreover, the majority of the SMEs have insufficient business assets as collateral; therefore, they tend to use their own property, such as certificate of ownership of their own home, land, and vehicles. Furthermore, half of the SMEs are unregistered, so they have no legal permit of the business, and therefore they are unable to fulfil the terms and conditions imposed by the financier.

**Table 5:** Factors in choosing source of financing

| Factors choosing source of funding | Response | Number | % |
|---|---|---|---|
| Location of the financier | Yes | 1761 | 62.9% |
| | No | 1014 | 36.2% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Mortgage required | Yes | 2282 | 81.5% |
| | No | 493 | 17.6% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Interest rates | Yes | 2489 | 88.9% |
| | No | 286 | 10.2% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Terms and conditions applied | Yes | 2346 | 83.8% |
| | No | 429 | 15.3% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Method of loan payment | Yes | 2128 | 76.0% |
| | No | 647 | 23.1% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Service and hospitality of the credit sales | Yes | 1801 | 64.3% |
| | No | 974 | 34.8% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Direct visit to the financier office | Yes | 1934 | 69.1% |
| | No | 842 | 30.1% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Credit sales offer the credit in your place | Yes | 1795 | 64.1% |
| | No | 980 | 35.0% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |

## Factors in Disrupting SMEs' Growth

Table 6 shows factors that the respondents considered as constraints in their business' growth. From the total respondents, 64.7 percent considered the limited capital, 42.4 percent considered ease of financing access, 14.5 percent considered difficulty in controlling the product's quality, 17.6 percent considered difficulty in obtaining the raw material, 21.2 percent considered difficulty in marketing the product, 34.7 percent considered the price competition, 14.8 percent considered difficulty in acquiring qualified employees, 13.4 percent considered difficulty in technology production, and 18.6 percent considered the lack of business management. In conclusion, limited capital (64.7 percent), ease of financing access (42.4 percent) and the price competition (34.7 percent) are the three most important factors that SMEs considered as the constraints in their business' growth.

**Table 6:** Factors in disrupting the business growth

| Factor disrupting the business growth | Response | Number | % |
|---|---|---|---|
| Capital position description | Limited funding | 1812 | 64.7% |
| | Capital shrinking | 233 | 8.3% |
| | Capital is used not for business activities | 213 | 7.6% |
| | Other | 516 | 18.4% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Ease of financing access | Very easy | 218 | 7.8% |
| | Easy | 1187 | 42.4% |
| | Moderate | 884 | 31.6% |
| | Difficult | 367 | 13.1% |
| | Very difficult | 120 | 4.3% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Difficulty controlling the product quality | Yes | 406 | 14.5% |
| | No | 2369 | 84.6% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Difficulty obtaining the raw material | Yes | 493 | 17.6% |
| | No | 2282 | 81.5% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Difficulty marketing the product | Yes | 594 | 21.2% |
| | No | 2182 | 77.9% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Price competition | Yes | 972 | 34.7% |
| | No | 1803 | 64.4% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Difficulty obtaining qualified employee | Yes | 413 | 14.8% |
| | No | 2361 | 84.3% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Difficulty in production technology | Yes | 376 | 13.4% |
| | No | 2399 | 85.7% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Lack of the business management | Yes | 521 | 18.6% |
| | No | 2254 | 80.5% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |

### Perception on the New Financier Establishment

Table 7 shows the perception of the SMEs on the establishment of new financiers (microfinance). From the total respondents, about 89.6 percent agree with the need for the establishment of new microfinance in future. Moreover, from the total respondents, 41.4 percent expected the interest rates charged would be lower than the existing interest rates offered, 33.5 percent expected the ease of financing access, and 19.7 percent expected the ease of mortgages required by the financier.

**Table 7:** Perception for future financing institution established

| Perception for future financing insitution | Response | Number | % |
|---|---|---|---|
| Agree of financing institution establishment | Yes | 2509 | 89.6% |
| | No | 266 | 9.5% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |
| Expecatation for future financing institution established | Ease of access | 938 | 33.5% |
| | Lower interest rates | 1159 | 41.4% |
| | Ease of mortgage required | 551 | 19.7% |
| | Training provided | 118 | 4.2% |
| | Closeness with market | 6 | 0.2% |
| | Other | 3 | 0.1% |
| | Missing Responses | 25 | 0.9% |
| | **Total Respondents** | **2800** | **100%** |

## Structural Equation Modeling and Confirmatory Analysis Results

This section provides the finding for SEM and confirmatory factor analysis. Before the SEM's result is explained, there are 11 factor loadings as indicators to create exogen latent variables. For this model, there are three exogen latent variables: finance, marketing and human resources. The indicators creating finance latent variables are from X11, X12, X13, X14 and X15. X11 is return on assets, X12 is return on equity, X13 is a ratio of sales to total assets, X14 is a ratio of sales to total equity, and X15 is profit margin. The indicators which create marketing latent variables are from X21, X22 and X23. X21 is additional product line after established. X22 is additional product line before having a loan. X23 is an increase in sales. The indicators that create human resource latent variables are from X31, X32 and X33. X31 is the number of employees. X32 is the percentage of salary over total sales. X33 is increase in salary before having a loan.

From all indicators of finance latent variable, X11 to X15, shows that all factor loadings are significant factors in creating finance latent variable. However, only two indicators have the largest contribution, which is shown in the value of coefficient determinant, ROE and sales to total equity. From all indicators of marketing latent variable, X21 to X23, shows that all factor loadings are significant factors in creating marketing latent variable. However, only X22 provides higher contribution in creating this latent variable. From all indicators of human resource latent variable, X31 to X33, it shows that only two factor loadings, which are X31 and X32, are significant factors in creating human resource latent variable. Both of X31 and X32 provide high contribution in creating this latent variable.

**Table 8:** Factor loading and t-value for all indicators of loan

| Variables | Estimated-values | t-Values | R-Squared |
|---|---|---|---|
| X11 | 0.2800 | 11.8100 | 0.1100 |
| X12 | 0.7800 | 21.2800 | 0.4100 |
| X13 | 0.2900 | 14.2300 | 0.1600 |
| X14 | 0.7700 | 21.9800 | 0.4600 |
| X15 | 0.8400 | 6.1200 | 0.0310 |
| X21 | 0.2800 | 22.0800 | 0.3100 |
| X22 | 0.4600 | 33.2400 | 0.8300 |
| X23 | 0.2600 | 21.0800 | 0.2800 |
| X31 | 0.4100 | 26.4000 | 0.6800 |
| X32 | 0.3600 | 25.0300 | 0.5700 |
| X33 | 0.0059 | 0.6000 | 0.0003 |

From three exogen latent variables, which are finance, marketing and human resources, only finance has a significant impact on the decision to have a loan. This suggests that if the income of owners increases, then they tend to have a loan.

**Table 9:** Factor loading and t-value for all exogen latent variables of loan

| Variables | Estimated-values | t-Values | R-Squared |
|---|---|---|---|
| Finance | 0.0680 | 4.9500 | |
| Marketing | 0.0630 | 0.0450 | 0.0220 |
| Human Resource | -0.0140 | -1.0000 | |

The result of the goodness of fit index exhibits that from 5 measures of fitness, only two measures, which are GFI and RMSR stated that the model specified is fitted. The figure of estimated values and the t-values of the model can be seen in figure 4 and figure 5 respectively.

**Table 10:** Goodness of fit value of loan model

| Goodness of Fit Index | Cut off value | The result of model | Note |
|---|---|---|---|
| Chi-Square | - | 1292.1200 | Not fit |
| Probability | ≥ 0.05 | 0.0000 | Not fit |
| RMSEA | ≤ 0.08 | 0.1200 | Not fit |
| GFI | ≥ 0.90 | 0.9000 | Fit |
| AGFI | ≥ 0.90 | 0.8400 | Not fit |
| RMSR | ≤ 0.05 | 0.0380 | Fit |
| CFI | ≥ 0.90 | 0.7000 | Not fit |

**Figure 4:** Estimated values of loan model

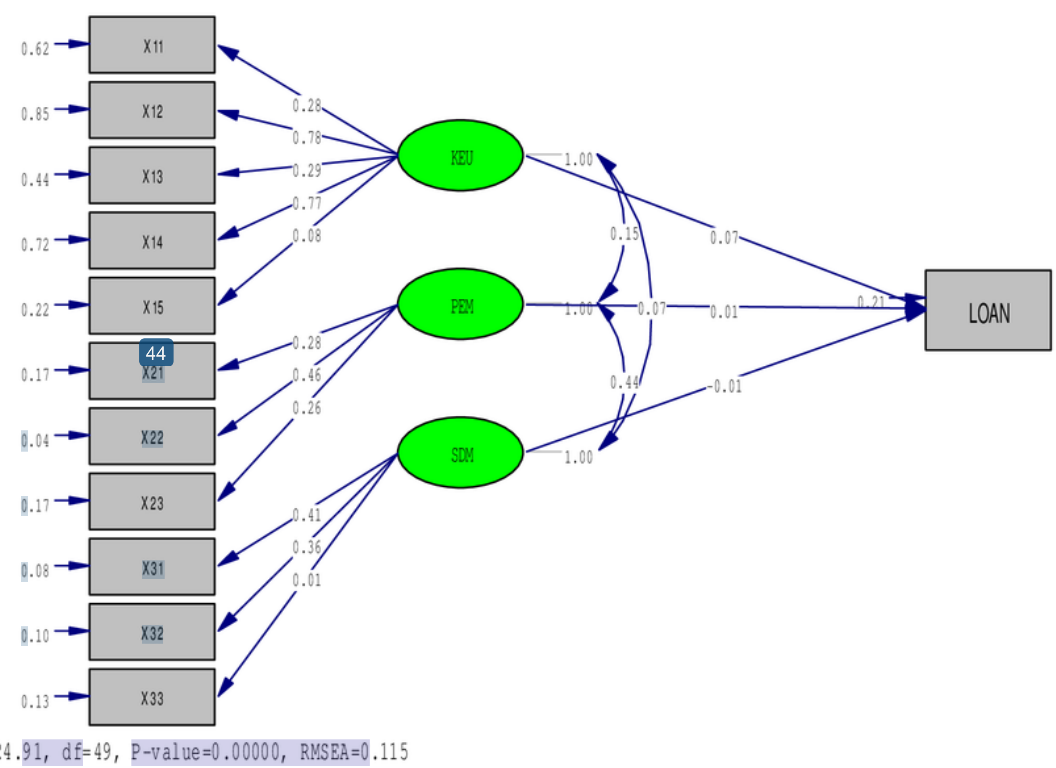
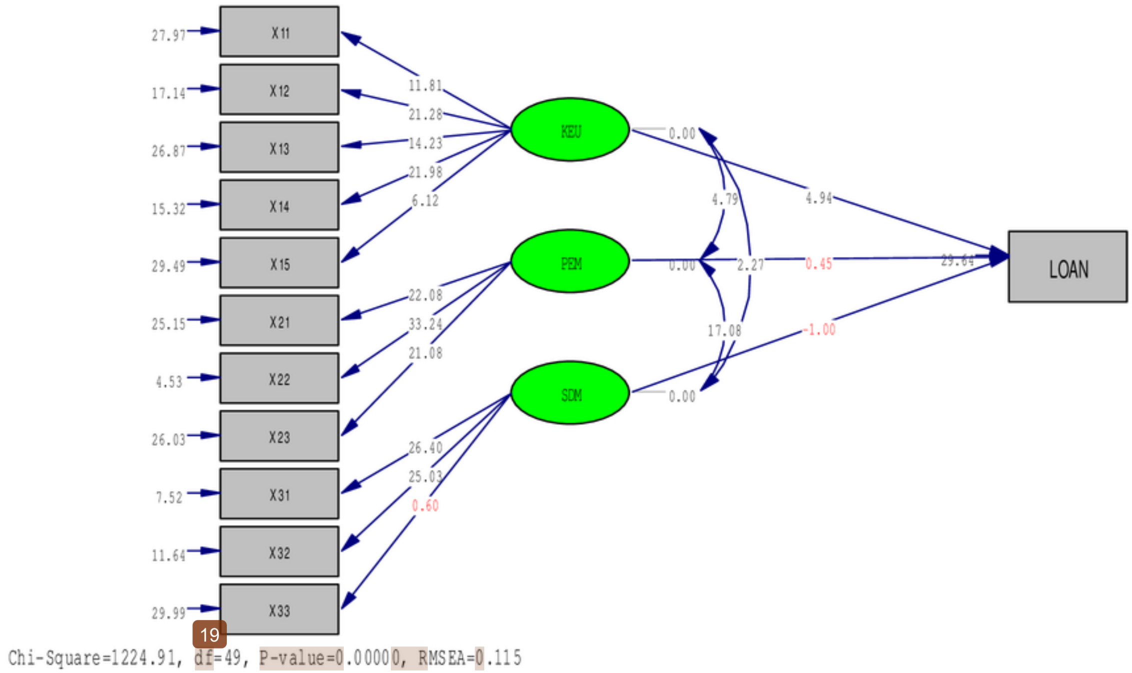


**Figure 5:** t-values of loan model




Next, all the indicators are significant in explaining the SMEs' preference when choosing source of financing. The majority of the indicators almost have similar contribution value, of r-squared about 0.3000. This result suggests that the SMEs prefer the service provided by the financier/credit sales, the closest location of the financier to their business, the easiest method of payment, the SMEs' visit to the financier's office, the leniency of mortgage required, the lenient terms and conditions imposed by the financier, the lower interest rate charged and the approach from the financier.

**Table 11:** Factor loading and t-value for all indicators of preference

| Variables | Estimated-values | t-Values | R-Squared |
|---|---|---|---|
| Location | 0.2600 | 23.8800 | 0.2900 |
| Mortgage | 0.2000 | 24.3400 | 0.3000 |
| Interest | 0.1500 | 24.1100 | 0.3000 |
| Terms | 0.1900 | 24.2800 | 0.3000 |
| Payment | 0.2500 | 26.1900 | 0.3600 |
| Service | 0.2900 | 27.3200 | 0.3700 |
| Come | 0.2100 | 19.6900 | 0.2100 |
| Approach | 0.1200 | 11.2500 | 0.0730 |

The result of the goodness of fit index exhibits that from 5 measures of fitness, only two measures, which are GFI and RMSR, stated that the model specified is fitted. This result is similar to the loan model results. The figure of estimated values and the t-values of the model can be seen in figure 6 and figure 7 respectively.

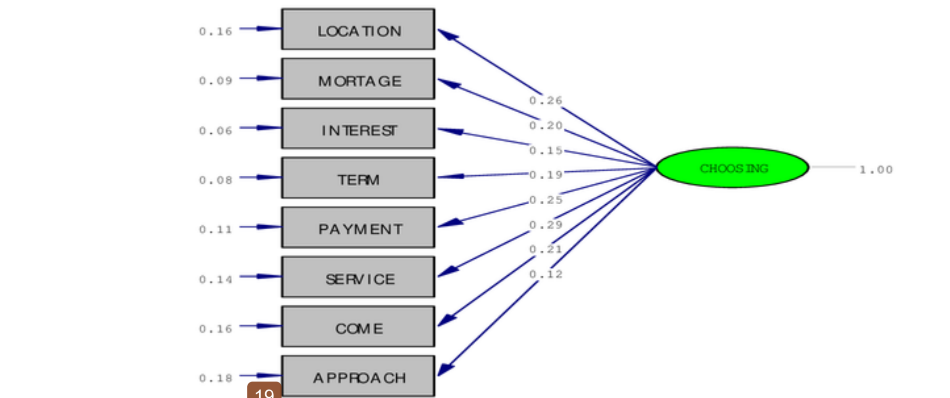
**Table 12:** Goodness of fit value of preference model

| Goodness of Fit Index | Cut off value | The result of model | Note |
|---|---|---|---|
| Chi-Square | - | 1109.3400 | Not fit |
| Probability | ≥ 0.05 | 0.0000 | Not fit |

**Table 12:** Goodness of fit value of preference model - continued

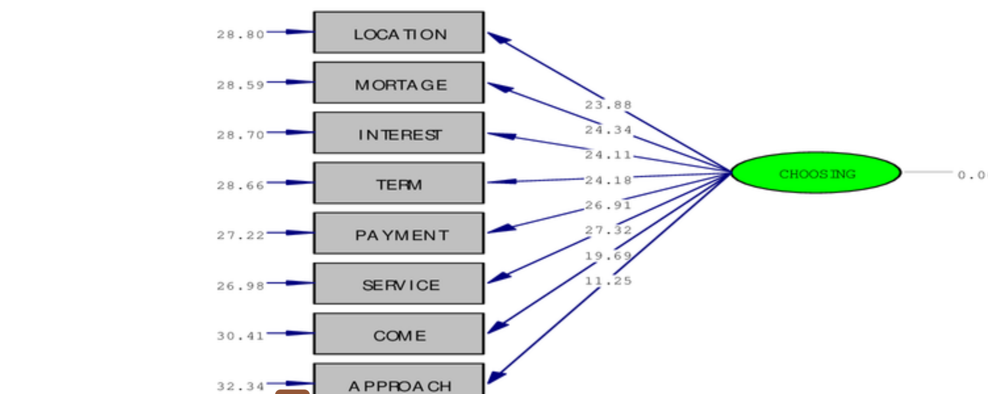
| | | | |
|---|---|---|---|
| RMSEA | ≤ 0.08 | 0.1600 | Not fit |
| GFI | ≥ 0.90 | 0.8900 | Close to fit |
| AGFI | ≥ 0.90 | 0.8000 | Not fit |
| RMSR | ≤ 0.05 | 0.0140 | Fit |
| CFI | ≥ 0.90 | 0.7100 | Not fit |

**Figure 6:** Estimated values of factors in choosing funding




Chi-Square=1109.34, df=20, P-value=0.00000, RMSEA=0.157

**Figure 7:** t-values of factors in choosing funding




Chi-Square=1109.34, df=20, P-value=0.00000, RMSEA=0.157

For all indicators for barriers' model, X1 is limited capital, X2 is ease of access to source of financing, X3 is product quality control, X4 difficulty in obtaining raw material, X5 is the market location, X7 is qualified employees, and X8 is the production technology. The result reveals that all indicators are significant in explaining the SMEs' growth barriers. However, only two variables contribute the highest value in explaining the barriers' factors, which are product quality control and difficulty in obtaining raw material. Moreover, only the coefficient of X2 is negative, suggesting that the easier the money, the more dangerous it can be for the SMEs' growth.

It can be concluded that the significant barriers that the SMEs considered are the limited capital they had, the loss of product quality control, the difficulty in obtaining raw material, the distance to the market location, the unqualified employees they had, and the limited technology they use to produce their product.

**Table 13:** Factor loading and t-value for all indicators of barriers imposed

| Variables | Estimated-values | t-Values | R-Squared |
|---|---|---|---|
| X1 | 0.0085 | 1.3300 | 0.0010 |
| X2 | -0.0023 | -0.3000 | 0.0000 |
| X3 | 0.2700 | 31.2100 | 0.4600 |
| X4 | 0.3300 | 36.7200 | 0.6200 |
| X5 | 0.2200 | 22.9400 | 0.2700 |
| X7 | 0.1700 | 20.3200 | 0.2200 |
| X8 | 0.2100 | 24.4400 | 0.3000 |

**Table 14:** Goodness of fit value of barriers imposed model

| Goodness of Fit Index | Cut off value | The resulf of model | Note |
|---|---|---|---|
| Chi-Square | - | 276.5300 | Not fit |
| Probability | ≥ 0.05 | 0.0000 | Not fit |
| RMSEA | ≤ 0.08 | 0.0920 | Not fit |
| GFI | ≥ 0.90 | 0.9700 | Fit |
| AGFI | ≥ 0.90 | 0.9300 | Fit |
| RMSR | ≤ 0.05 | 0.0065 | Fit |
| CFI | ≥ 0.90 | 0.8900 | Fit |

**Figure 8:** Estimated-values of barrier's factors in SMEs' growth

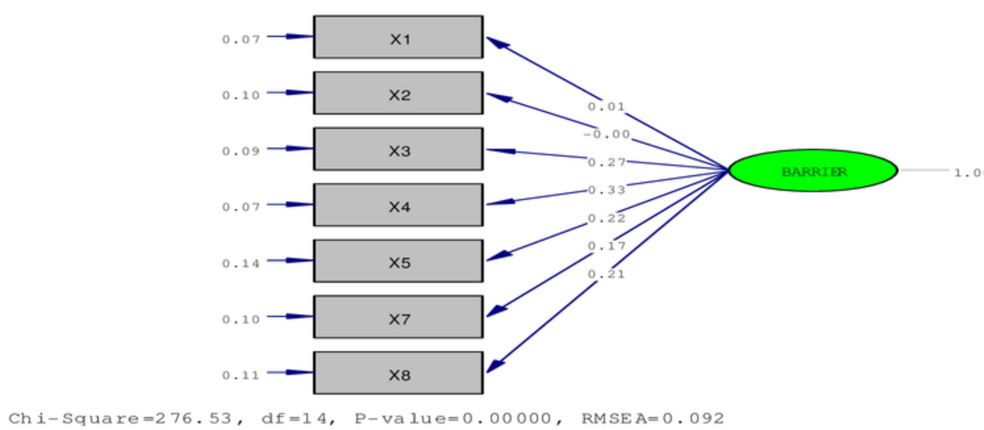
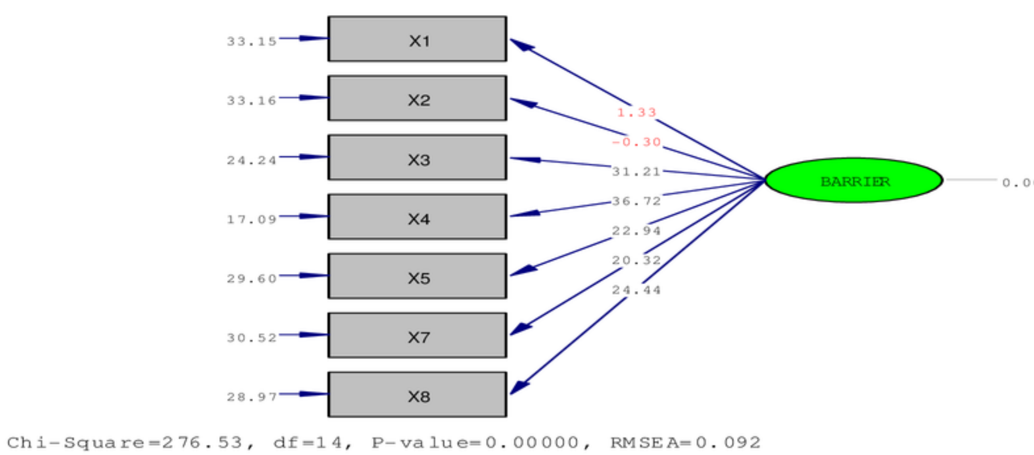



**Figure 9:** t-values of barrier's factors in SMEs' growth



## Conclusions

Small firms' financing is the most binding obstacle to investment by far. Access to credit is particularly stringent for small firms operating in the informal sector. The lack of collateral is often reported to be the binding constraint to credit access and results in harsher bank lending terms and conditions for small firms than for large firms. In addition, SME managerssometimes lack the skills needed to apply for a loan and meet bank standards. The use of SME assets as collateral entails so much effort that in the end small firms would have to provide collateral with a higher value than that of the loan received. All those problems seem to be common problems encountered by the SMEs in accessing financing sources.An attempt of various methods by the government has been made so far to solve those problems, but the result seems to be unfruitful as the implementation of the rules and regulations made are not similar to what it should be.

In conclusion, the results of this study reveal that there is a significant positive impact on firm performance as a result of having a loan, of obtaining loan from formal microfinance, of registering the firm, and of receiving the fostering from financier. However, having loan in longer term provides a negative signifant impact on business growth and business survival. In addition, female are better able in managing the business when they have debts in long term.

## Limitations

Notwithstanding the findings, the current study does have limitations, which point to potentially fruitful further research opportunities. First, the current study used only a few aspects of SMEs. Further studies could consider other aspects of SMEs, such as demographic factors. Second the findings are based on research in a single province and may not be generalisable. Further, the findings of this study are restricted to the limitation of the data, which was collected through survey method and publicly available data sources. If there were any problems relating to the responses acquired and the data disclosures, then that would limit the validity of the findings. In addition, the entire sample comprises only 2,800 respondents, with the survey being conducted in the beginning of 2013.

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