



# MSMEs Access to Capital Market Issues and Challenges

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## ABSTRACT

*Along with the development, various factors are needed including in terms of capital which must be continuously fulfilled to continue distribution activities from producers to consumers. Ease of access to capital for MSMEs includes the ease of requirements in applying for formal financing so that business people do not choose personal or non-formal loans which can be said to have less stable capital availability. These easy requirements, even accompanied by light financing services, greatly encourage business people to develop their businesses so that they continue to receive circular financing. The research uses literature research. The data collection method used is the documentation method. The data analysis emphasis on disclosing the content (essence) aspects of several existing propositions. Furthermore, this method is the nature of the review of various theories and analyses. The results of his research SME usually use business capital from personal pockets or joint capital with partners at the beginning of establishing a business. MSMEs are important because compared to large companies, external sources of MSME financing are limited in terms of supply and demand. Business capital can also be interpreted from various aspects, namely capital for the first time to open a business, capital to expand the business, and capital to run daily businesses obtained from the investment model and working capital. MSME constraints on bank credit can be viewed from the demand and supply side. Efforts are being taken to increase the use of credit facilities from banking institutions by micro, small and medium enterprises by increasing access to banking to obtain credit facilities for MSMEs, strengthening MSMEs in financial, managerial, partnership, and entrepreneurial capabilities.*

**Keywords;** Capital Access; Financing; Micro Small and Medium Enterprise; Small and Medium Enterprise

## INTRODUCTION

MSMEs are currently in the spotlight because of their large role in economic growth in Indonesia. Along with its development, various factors are needed, including in terms of capital, which must continue to be fulfilled to continue distribution activities from producers to consumers.

The role of MSMEs is very important in accelerating economic development and making a fairly high contribution to the country's economy.

The number of MSMEs in Indonesia continues to increase, in 2018 and the most increasing is in micro-enterprises by 98.73% with an average growth in 2018-2022 reaching 2.4%, but behind the development of MSMEs which continues to increase there are obstacles. The problems that are always encountered by MSME business people in Indonesia include problems or constraints on resources, financing, knowledge of financial management, technology, and other problems that hinder the development of the MSME business actors. Similarly, other areas in Telangana Regency,

especially Telangana Sub-district also have a very large number of MSMEs even the number continues to increase from 2018-2022 to 2019 number of MSMEs in Ranga Reddy District is 6,020, 2020 is 6,219, 2021 is 6,234 and in 2022 6,600, This increase was due to a large number of MSME business people emerging.

Ease of access to capital for MSMEs includes the ease of requirements in applying for formal financing so that business people do not choose personal or non-formal loans which can be said to have less stable capital availability. These easy requirements, even accompanied by light financing services, really encourage business people to develop their businesses so that they continue to get cyclical financing.

There are further problems related to access to capital, namely the obstacles that are always experienced by MSMEs, even though as is known MSMEs have a very large role and a very large contribution to the state, the problem of access to capital is caused by several things such as administrative constraints and other obstacles that make MSME actors find it difficult to get access to financing.

Cooperatives and Micro, Small, and Medium Enterprises (MSMEs) require capital in business operations. The Micro, Small, and Medium Enterprises sector have characteristics that distinguish MSMEs from large-scale enterprises. The characteristics that distinguish these MSMEs from large-scale businesses are in terms of their capital and human resources. Micro, Small, and Medium Enterprises generally require relatively small capital compared to large-scale enterprises. Therefore, MSMEs are mostly engaged in the informal sector, due to **limited resources, especially capital problems**.

Cooperatives and MSMEs have difficulty accessing banking capital because of the requirement to use assets as collateral. Regarding market failures in distribution and access to capital, especially those caused by the difficulty of MSMEs to meet loan requirements from banks, most registered MSME creditors do not have the collateral to meet the requirements to obtain access to bank loan approvals. As a result, MSMEs appear less prospective to be given loans/capital credits due to their inability to fulfill the requirements as collateral for loan guarantees, and it is feared that MSMEs will not be able to repay their credit loans.

Cooperatives and MSMEs that have potential have not taken advantage of credit facilities from banks with

credit guarantees from Jamkrida. Based on observations from banks, if cooperatives and MSMEs are deemed worthy of credit, then MSMEs and cooperatives can use the guarantee facility from Jamkrida for 70% of the value of the loan, and 30% from cooperatives and MSMEs.

Business continuity can be used for consideration by formal financiers to ensure the ability of customers to fulfill their obligations to repay. The system that is currently developing is the existence of a trust system for customers without the need to provide a guarantee in applying for financing.

## LITERATURE REVIEW

Access to capital is an external factor contained in the attribution theory that affects the performance of MSMEs. It is a fact because access to capital is the most important component for a business because access to capital can help MSME businesses, and people, to advance their businesses such as adding new products or expanding business sales. Information regarding access to capital provided by financial institutions, whether it is information on lending procedures, ease of accessing credit and credit terms, or other information related to accessing capital, is something that MSME business people need, because access to capital then it can help MSME actors to develop their business. The results of the study (Putra & Purnamawati, 2013) say that access to capital such as credit lending can be done by financial institutions that have the main goal, namely helping MSME businesses people in developing their business and the sustainability of MSME entrepreneurs so that it is easy to access capital. It is indeed very helpful for people who run MSMEs, especially those who obtain capital to increase income, business continuity, and sustainability of MSME business actors.

### *A. Micro, Small, and Medium Enterprises (MSMEs)*

Micro, Small, and Medium Enterprises (MSMEs) aim to develop businesses to improve the national economy based on just economic democracy. This means that MSMEs as a tool of national struggle in growing and developing the national economy by involving economic actors based on their potential based on justice for all stakeholders. The definition of MSMEs mandated in the Law of the Republic of Indonesia Number 20 of 2008 concerning MSMEs defines MSMEs as follows:



Micro-enterprises are productive businesses owned by individuals and/or individual-owned business entities where the total net worth is Rp. 50,000,000, -, excluding land and buildings for business premises, and has a maximum annual sales turnover of Rp. 300,000,000.

A small business is a productive business that stands alone, owned by individuals or business entities that are not included in the part or branch of a medium or large business. Total net worth owned is IDR 50,000,000 up to IDR 500,000,000 and has an annual sales turnover of IDR 300,000,000 up to IDR 2,500,000,000.

Medium-sized businesses are productive businesses that stand alone and are owned by individuals or business entities that are not included in the part or branch of a small business or large business. Total net worth owned is Rp. 500,000,000 up to Rp. 10,000,000,000, - excluding land and buildings for business premises and has an annual sales turnover of more than Rp. 2,500,000,000, - up to Rp. 50,000,000,000. -

## **RESEARCH METHODOLOGY**

This type of research uses literature research. Literature research is research conducted in the library to collect and analyze data sourced from the library in the form of periodical books such as scientific magazines that are published regularly, historical stories, documents, and other library materials that are published regularly. can be used as a reference source for compiling a scientific report. This study uses a qualitative approach which conducts research that focuses on natural phenomena or symptoms. Being natural here means that the researcher does not conduct research in the laboratory.

This research is descriptive, meaning that each piece of data collected is in the form of words, and pictures and not in the form of numbers. All the data collected may be the key to what has been researched. This study contains excerpts of data to provide an overview of the presentation of the report. In this study, the emphasis is on answering the questions "why", "how", or "what reason". In this study, the researcher only presented data in the form of words or written descriptions. Thus, the data obtained in the form of quotations can already provide an overview of the presentation of this report. The questions used are only "what/what", and how" so that this discussion is easy to understand.

Data source

According to Haryanti (2019), the source of data is from which data can be obtained. The data obtained by the researcher comes from articles/journals or books, documents, and other related literature. This research is literature research. There are two sources of data that will be used in this research. First, primary data sources are reference books which are the main sources of research. Second, secondary data sources are supporting reference sources in this study.

The data collection method used is the documentation method. The documentation method is collecting data by viewing or recording a report that is already available. The data that is already available, the researchers took from several books and journals.

Methods that prioritize the disclosure of the content (essence) aspects of several existing propositions. Furthermore, this method is the nature of the review of various theories and analyses.

## **RESULTS AND DISCUSSION**

### **Getting to Know Business Capital for SMEs**

SMEs usually use business capital from personal pockets or joint capital with partners at the beginning of establishing a business. It is difficult to obtain loan capital from banking institutions and non-bank financial institutions if you do not have a guarantee for a successful business.

SMEs who have been in business for at least 6 months and want to increase business capital to develop their business have a great opportunity to be able to obtain additional capital. Business capital can be obtained from banks, non-bank financial institutions, and large investors. Their commonly called the capital structure is a component on the liability side, namely liabilities and capital or debt.

Business capital is a fund that functions to run a business, both starting and developing a business. The need for business capital depends on the scale of the business itself. If you have a small-scale Small and Medium Enterprise (SME), then the need for business capital is certainly small. On the other hand, if you have a medium-sized business, the amount of business capital must also be adjusted. Business capital has three different forms, namely initial capital for the first time to open a business, capital to develop a business, and capital to run daily businesses.

### **The Importance of Capital for SMEs**

Micro, Small, and Medium Enterprises (MSMEs) have an important role in the Indonesian economy. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM), it was recorded that in March 2021 the number of MSMEs reached 64.2 million with a contribution to the Gross Domestic Product of 61.07% or Rp. 8,573.89 trillion. MSMEs can absorb 97% of the total workforce and can collect up to 60.42% of the total investment in Indonesia.

Issues related to MSME financing are important because compared to large companies, external sources of MSME financing are limited in terms of supply and demand. The role of venture capital financing is to increase business development, but sometimes it is limited by capital capabilities. The lack of MSME capital is caused because usually, these businesses are individual businesses or individual business entities whose business capital is their capital, while loan capital from financial institutions is difficult to obtain because the administrative and technical requirements requested by banks cannot be met. Financing assistance will be able to overcome the capital problems of MSME actors.

### **Types of Business Capital**

Business capital can be interpreted as funds used to run a business to keep it running. Business capital can also be interpreted from various aspects, namely capital for the first time to open a business, capital to expand the business, and capital to run daily businesses. The types of capital are as follows:

#### **Investment capital**

Investment capital is known as fixed assets or assets. Investment capital is the initial capital needed for initial business investment. Funds are spent to buy goods for permanent needs so that the business can run.

If the business being run is in the form of production, then funds are allocated to purchase production equipment and machinery. If the business is engaged in services, then the investment capital is in the form of rent or purchase of equipment supporting services.

The following are included in the business investment capital requirements:

#### **1) Licensing Capital**

- a) Business location permit from the village and sub-district
- b) special business licenses such as business permits

c) Business entity license in the form of making PT, CV, alongwith NPWP, SIUP, and TDP.

#### **2) Fixed Investment Capital**

a) Purchase of land assets, buildings or rental of premises, and building renovations.

b) Various basic needs equipment for business, supporting facilities for business needs equipment, administrative equipment, and promotional tools.

#### **b. Working capital**

Working capital is also known as current assets which are identical in the form of money. Working capital is the capital needed to finance production expenses or business operational activities.

Working capital is divided into two types, namely fixed capital or expenditure costs every certain period, and variable capital or variable costs, and only appear if there is additional work. In business operations, working capital is usually used to purchase raw materials, employee salaries, electricity payments, or transportation costs.

The following are included in the working capital requirements:

#### **1) Salary operating costs**

- a) Manager's salary, as per standard or average wage
- b) Supervisor's salary, according to standard or average wage
- c) Salary of other employees, according to standard or average wages

#### **2) Material cost**

- a) The main raw materials needed by the business
- b) Business support complementary materials

#### **3) General fee**

- a) Electricity bills
- b) Phone account
- c) Cleaning money
- d) Security money
- e) Fuel money
- f) Transport money
- g) Unforeseen expenses

Based on the source, business capital is grouped into two types, namely own capital and loan capital from other parties. Further explanation will be related to sources of venture capital.

### **2. Source of Business Capital for SMEs**

- a. Source of venture capital for beginners



Personal capital is funds owned personally to be transferred into venture capital. Personal capital usually comes from savings or the disbursement of investments that have been collected within a certain period. It can also be in the form of grants or gifts from other parties without any obligation to return the funds. Beginners SMEs who are just starting a business generally use personal funds as business capital.

The joint venture fund will affect profit growth, however, must also be willing to share profits with business partners. If SMEs are in the form of a legal entity, such as a Limited Liability Company (PT) or Limited Liability Company (CV), the capital, either individually or in partnership, is often referred to as paid-in capital. If the business is in the form of a cooperative, it is generally called principal savings and mandatory savings. In a business in the form of a legal entity or cooperative, the provisions for the use, withdrawal, and transfer of capital are specifically regulated by legislation so that a person cannot use business capital arbitrarily. Meanwhile, the use of venture capital for individual businesses is regulated by provisions agreed upon by the parties concerned. Business capital from the combined funds can not only be used to start a business but also to develop an existing business.

#### **b. Source of capital for business development**

Bank loan capital is capital obtained from banks with an obligation to return funds along with loan yields. Special programs such as KUR to provide easy loans for small entrepreneurs are still intended for businesses that have been running for at least 6 months. This needs to be understood because banks carry out the mandate to manage customer money by disbursing loans to businesses that are running well to reduce risk.

Providing SME loans from government programs, banks also provide loan facilities for SMEs with guarantees. Secured credit is the provision of funds based on a loan agreement between the bank and the customer which requires the borrower to provide assets as collateral for funds. The borrower is also required to pay off the debt after a certain period accompanied by the yield or interest on the loan to the bank. If the borrower is unable to fulfill the obligation to repay the loan within a certain period (according to the agreement), the bank has the right to take the assets guaranteed by the borrower.

SME loans without collateral, are given by the bank to the borrower without any assets as collateral for the debt. In recent times, several banking institutions, especially state banks have provided SME Credit facilities without collateral. This is an effort to support the national economic recovery program. However, banks do not just pour out loans without collateral. The main targets are usually existing customers and business profiles, as well as related bank EDC merchants. This will provide risk security for the bank.

Working Capital Credit is a credit facility to meet working capital needs that are exhausted in one business cycle and/or working capital needs. The needs in question are special, such as finance, projects, or other special needs.

Investment credit, namely SME credit facilities provided to finance the need for capital goods in the context of rehabilitation, modernization, expansion, the establishment of new projects, and or special needs related to investment. This financing is generally for investment and is given to business people who have been in business for at least 1 year. Business people have a maximum period of 5 years with flexible funds. Usually, the debtor uses this financing for the development of an existing business.

#### **3. The constraints of SMEs in accessing sources of capital**

MSME constraints on bank credit can be viewed from the demand and supply side. From the demand side, MSMEs have unique characteristics where in general MSMEs do not have transparent financial reports, which causes lenders to have difficulty in obtaining information about the financial and business conditions of MSMEs. From the supply side of credit, The reluctance of banks to provide credit to MSMEs is mainly due to the limited assets that can be used as collateral, business uncertainty in the future, weak financial management, and a lack of track record. Credit has a very vital role for SMEs., micro-enterprises have limited access to bank credit, so many use informal financial institutions as a source of financing. Beck, Demirgüç-Kunt, & Maksimovic, (2008) Large companies have very easy to get access to bank credit.

There are several obstacles to accessing financial financing by MSMEs, namely: (1) Limited banking credit facilitation for MSME product development; (2) Banking credit procedures and requirements are relatively

complicated and bureaucratic; (3) Inability to provide additional guarantees;

(4) The high-interest rate on bank credit, especially for investment capital; and (5) Limited range of banking credit services in the regions. In connection with the above, the problem that is interesting for the author to study is what factors affect the ease with which MSMEs get credit from banks.

4. Things that SMEs need to prepare for SME Obstacles in absorbing Capital. Things that need to be prepared by SMEs in the constraints of SMEs in absorbing capital are:

- a. Availability of insight into the capital market and capital
- b. There is a strengthening of MSME morality and commitment
- c. Guaranteed security and quality of service system
- d. Good communication between investors and publishers.

MSMEs have a very strategic and important role that can be viewed from various aspects. First, the number of industries is large and exists in every sector of the economy. Based on data from the Central Statistics Agency (BPS) in 2002, the number of MSMEs was 41.36 million units, or 99.9% of the total business units. Second, it has great potential for employment. Each investment unit in the MSME sector can create more job opportunities when compared to the same investment in large businesses. The MSME sector absorbs 76.55 million workers or 99.5% of the total working workforce. Third, the contribution of MSME's to the formation of GDP is quite significant, amounting to 55.3% of the total GDP.

Efforts are taken to increase the use of credit facilities from banking institutions by micro, small and medium enterprises by increasing access to banking to obtain credit facilities for MSMEs, strengthening MSMEs in financial, managerial, partnership, and entrepreneurial capabilities.

Access to banking to obtain credit facilities. Helping access to funders/investors or credit providers/providers will solve the problem of the company's capital needs, not because they do not want to provide funding to entrepreneurs, but because each of them does not know and does not know the other. Therefore, it is necessary to have a facilitator who can connect the two parties.

Strengthening MSMEs by increasing capabilities in terms of MSME financial arrangements, managerial,

partnerships, and entrepreneurial abilities. Good managerial skills will be very useful for MSMEs to improve the quality of MSMEs. MSMEs will become stronger when the management is good. Good financial arrangements will be very beneficial for MSMEs for their survival of MSMEs themselves. Financial arrangements can be made not only to manage finances internally but also to support the ability of MSMEs to repay loans or credit obtained from banks.

5. Recommendations for stakeholders in supporting SME capital

a. Banking

Implementing Banks that disburse revolving funds to be more intensive in providing socialization to MSMEs that need capital. This is so that MSMEs that are not bankable and feasible to be given credit can take advantage of revolving funds.

b. Non-Bank

The Cooperatives and UMKM Service guides MSMEs to continue to grow by utilizing Daguler funds to develop MSME businesses. The Department of Cooperatives and MSMEs should cooperate with BUMN or BUMD to provide recommendations for lending by BUMN and BUMD. The Department of Cooperatives, Implementing Banks and Jamkrida provides information and socialization to Cooperatives and MSMEs.

## CONCLUSION

SMEs usually use business capital from personal pockets or joint capital with partners at the beginning of establishing a business. MSMEs are important because compared to large companies, external sources of MSME financing are limited in terms of supply and demand. Business capital can also be interpreted from various aspects, namely capital for the first time to open a business, capital to expand the business, and capital to run daily businesses obtained from the investment model and working capital. MSME constraints on bank credit can be viewed from the demand and supply side. Efforts are being taken to increase the use of credit facilities from banking institutions by micro, small and medium enterprises by increasing access to banking to obtain credit facilities for MSMEs, strengthening MSMEs in financial, managerial, partnership, and entrepreneurial capabilities.



## Conflict of interest statement

Authors declare that they do not have any conflict of interest.

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