

## Performance of Small and Medium Enterprises in Indonesia Impacted by Financial Accessibility

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### Abstract

The goals of this study are to examine and analyze the financial accessibility of SMEs in Indonesia, to examine the impact of financial constraints on SMEs' performance there, and to determine how SMEs' performance in Indonesia is impacted by their involvement in the financial market. This analysis makes use of panel data from the 2009 and 2015 waves of the World Bank Enterprise Survey (ESWB). Quantitative analysis with panel data regression models utilizing the Fixed Effect Model (FEM) or Random Effect Model (REM) and Hausman test constitute the analytical framework for this study. Stata Software is used for all computations and estimation related to the model and its tests. The results show that financial accessibility has a greater influence on sales growth compared to labor growth in medium-sized businesses, while in small businesses financial accessibility has a smaller effect on sales growth compared to labor growth. The number of small companies that are not financially constrained is more than the number of companies participating in the financial market. And participation in the financial market has an influence on business performance, both in terms of sales growth and workforce growth.

**Keywords:** Financial Accessibility; Participation, Financial Markets; SME Performance.

**JEL classification:** O160; O120.

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### 1. INTRODUCTION

Recent attention in Indonesia has focused on the importance of micro, small, and medium-sized businesses in influencing economic growth, job creation, and poverty alleviation (MSMEs) (Nursini, 2020). Micro, small, and medium-sized enterprises (SMEs) have the power to expedite economic change and have a significant impact on enhancing the standard of living for a large number of people (Prasetyo, 2020). SMEs also have a significant impact on investment decisions in various aspects such as contribution to the local economy. the growth and sustainability of SMEs

can create a healthy and attractive business environment for investors. the success of SMEs can increase investor confidence in a region or country (Aisyah & Rahayu, 2013) . MSMEs are required to play a key role as the main source of employment and community income (Alharbi et al., 2015). In addition to being the main forces behind the country's economic development and its economic backbone, MSMEs contribute significantly to Indonesia's economic growth (Susila, 2017). On the other hand, there are still many challenges and barriers to the growth of MSMEs in Indonesia (Maksum et al., 2020). There

are six main issues facing MSMEs in developing nations, including Indonesia: (1) limited access to information and a lack of market understanding; (2) a lack of understanding of opportunities for market access; (3) a lack of capital and low access to capital; (4) a lack of entrepreneurial skills among actors; (5) a very limited production capacity, making it difficult for them to fill orders in a large volume; and (6) high costs associated with obtaining licenses and running an MS (Wang, 2016; Yoshino, 2016).

In keeping with that, including Traditional and fundamental issues facing MSMEs (fundamental issues), such as capital issues, irregular forms of legal entities, human resources (HR), product development, and marketing innovation; Advanced challenges, such as imperfect market launch and penetration, ignorance of product designs that are in line with market characteristics, legal concerns with regard to patents, sales contract procedures, and export destination country rules; Intermediate problems, or issues from linked organizations, are ones that need to be resolved in order to properly handle advanced issues. These issues include limits on entrepreneurship, financial management, and collateral (Odebunmi, 2022). Studies on the influence between financial accessibility and corporate performance have produced contradictory results. The findings of numerous research demonstrate the significance of access to financing in improving the performance of small and medium-sized businesses (SMEs). On the other hand, numerous studies demonstrate that SME performance and access to capital are unrelated (SMEs). Brown, Earle, & Lup, (2005), found evidence that micro and small enterprises (MSEs) with access to finance grew more quickly. These studies provide support for access to finance. According to Demirgüç-Kunt & Maksimovic (1998) and Rajan & Zingales (1998), nations with superior financial institutions see faster economic growth in sectors that depend on foreign funding. Additionally, Wurgler (2000), demonstrates how the growth of the financial system affects how quickly resources are allocated to productive industries.

Other studies offer different insights. For

instance, Daniels & Mead (1998) and Johnson, McMillan, & Woodruff (2000), found that finance was not a significant determinant of growth, and Cabal (1995), claimed that access to finance might actually impede the expansion of micro and small enterprises (MSEs) in the Dominican Republic. Similarly, McCormick, Kinyanjui, & Ongile (1997) and Kinyanjui, Kiragu, & Riro (2017), demonstrate how financial constraints restrict the growth of MSMEs. According to empirical research conducted in Indonesia, small business growth is not impacted by access to financing (McPherson & Rous, 2010). Along with access to financing, there are other additional factors that have an impact on SMEs. Legal factors, crime, regulations/policies, corruption, company size, company age, and infrastructure also affect company performance (Aterido et al., 2011). These factors also affect access to finance (Ibrahim, 2008) went on to discuss the strategic variables that influence the performance of small and medium-sized businesses in Borno, Nigeria, concluding that inadequate infrastructure constraints, such as inadequate electricity supply, a lack of raw materials, restricted access to financial institutions, and a shortage of labor and resources, have an impact on small businesses.

This study focuses on the performance of SMEs in Indonesia and other barriers to financing. In Indonesia, this study has not been frequently conducted, particularly using data from the World Bank's Enterprise Survey (ESWB). In this study, we focus on one region's small and medium-sized businesses to more closely examine the size of the group of businesses. This study also emphasizes the link between financial access and business performance. When a company's performance is measured using both financial and non-financial metrics. Profit, income, return on investment, rate of return on equity, and earnings per share can all be produced via financial measurement. While non-financial indicators such as the number of employees, revenue growth, income per employee, market share, customer satisfaction levels, customer diversity, job happiness, and social and environmental performance (Santos and Brito, 2012). Meanwhile, the constraint dimension is the company's ability to access finance. Besides

that, it will also include control variables such as business environment constraints (using variables contained in the ESWB data), company size (small, and medium) and company age. Thus, this study will use this approach to obtain more extensive information. Based on the aforementioned description, this study makes an effort to assess how access to financing and other factors affect the performance of small and medium-sized firms (SMEs) in Indonesia (2017). ESWB data from surveys in 2009 and 2015 were used in this study to capture characteristics associated to financial limitations.

## 2. RESEARCH METHODS

The data utilized in this analysis are secondary data from Enterprise Surveys World Bank (ESWB) in 2009 and 2015 in the form of panel data (pooled data), which is a blend of time series data and cross-sectional data. The secondary data used is data from 33 provinces in Indonesia which are divided into 9 regions, namely: West Java, Central Java, East Java, Jakarta, Banten, South Sulawesi, North Sumatra, Bali, and Lampung. These 9 regions are the largest population and economic centers in Indonesia, accounting for more than 70% of companies and 68% of workers in Indonesia (Bank, 2015). The number of data observations in this study were 1,701 small and medium-sized companies in Indonesia. Then based on the scope of this study selected companies that fall into the category of small and medium enterprises, so the number of samples in this study were 1,023 small companies and 670 medium companies. Furthermore, the company data surveyed in 2009 were 837 companies, and company data surveyed in 2015 was 856 companies. Besides being analyzed using panel data analysis, it is also analyzed individually for each data year.

To calculate how small and medium-sized businesses (SMEs) affect employment growth and sales growth using information on the use of outside funding sources and loan applications by utilizing information on financial access measures, namely credit constraint status; ownership of the loan/ credit line; the company's ability to

use various loan/ overdraft facilities; bothloan (combination of creditline and overdraft facility); and financial constraints. An econometric model is used as shown below:

### a. The Effect of Credit Constraint Status (CCS) on Labor Growth and Sales Growth of Small and Medium Enterprises (SMEs) in Indonesia

$$GEm_{it} = \alpha_0 + \alpha_1 CCS_{it} + \alpha_2 OC_{it} + \alpha_3 SMALL_{it} + \alpha_4 ADULT_{it} + \alpha_5 OLD_{it} + \varepsilon_1 \quad (1)$$

$$GS_{it} = \beta_0 + \beta_1 CCS_{it} + \beta_2 OC_{it} + \beta_3 SMALL_{it} + \beta_4 ADULT_{it} + \beta_5 OLD_{it} + \varepsilon_1 \quad (2)$$

### b. Effect of Financial Constraint t (FC) Against Labor Growth and Sales Growth of Small and Medium Enterprises (SMEs) in Indonesia

$$GEm_{it} = \alpha_0 + \alpha_1 FC_{it} + \alpha_2 OC_{it} + \alpha_3 SMALL_{it} + \alpha_4 ADULT_{it} + \alpha_5 OLD_{it} + \varepsilon_1 \quad (3)$$

$$GS_{it} = d_0 + d_1 FC_{it} + d_2 OC_{it} + d_3 SMALL_{it} + d_4 ADULT_{it} + d_5 OLD_{it} + \varepsilon_1 \quad (4)$$

### c. Effect of Creditlines on Labor Growth and Sales Growth of Small and Medium Enterprises (SMEs) in Indonesia

$$GEm_{it} = \beta_0 + \beta_1 CREDITLINE_{it} + \beta_2 OC_{it} + \beta_3 SMALL_{it} + \beta_4 ADULT_{it} + \beta_5 OLD_{it} + \varepsilon_1 \quad (5)$$

$$GS_{it} = \alpha_0 + \alpha_1 CREDITLINE_{it} + \alpha_2 OC_{it} + \alpha_3 SMALL_{it} + \alpha_4 ADULT_{it} + \alpha_5 OLD_{it} + \varepsilon_1 \quad (6)$$

### d. The Effect of Overdraft Facility on Labor Growth and Sales Growth of Small and Medium Enterprises (SMEs) in Indonesia

$$GEm_{it} = d_0 + d_1 FACILITYOVERDRAFT_{it} + d_2 OC_{it} + d_3 SMALL_{it} + d_4 ADULT_{it} + d_5 OLD_{it} + \varepsilon_1 \quad (7)$$

$$GS_{it} = g_0 + g_1 FASILITAS OVERDRAFT_{it} + g_2 OC_{it} + g_3 KECIL_{it} + g_4 DEWASA_{it} + g_5 TUA_{it} + \varepsilon_1 \quad (8)$$

### e. Effect of Bothloan on Labor Growth and Sales Growth of Small and Medium Enterprises (SMEs) in Indonesia

$$GEm_{it} = g_0 + g_1 BOTHLOANS_{it} + g_2 OC_{it} + g_3 SMALL_{it} + g_4 ADULT_{it} + \varepsilon_1 \quad (9)$$

$$GS_{it} = g_0 + g_1 BOTHLOANS_{it} + g_2 OC_{it} + g_3 SMALL_{it} + g_4 ADULT_{it} + g_5 OLD_{it} + \varepsilon_1 \quad (10)$$

$$GS_{it} = d_0 + d_1BOTHLOANS_{it} + d_2OC_{it} + d_3SMALL_{it} + d_4ADULT_{it} + d_5OLD_{it} + \varepsilon_1 \quad (11)$$

*i* = company/business  
*t* = 2009 and 2015  
 $\varepsilon$  = disturbance factor (disturbance error)

where :

- GEm = workforce growth
- GS = sales growth
- CCS = dummy a variable that shows the status of the credit constraint that looks at the extent to which the business participates in the financial market, where = 1 the business participates in the financial market, or 0 otherwise.
- FC = dummy variable from financial constraints, where = 1 if company have financial constraints, or 0 if other.
- OC = dummy variable constraints from the business environment, where = 1 if the company is constrained from the business environment, or 0 if otherwise.
- credit line = dummy variable of loan ownership, where = 1 if the company has access to loans, or 0 if otherwise.
- Overdraft Facility = dummy variable of the company's ability to use various loan facilities, where = 1 if the company has a loan facility, or 0 otherwise.
- Bothloan = combination of creditline and overdraft facility
- Small = dummy variable of firm size, where = 1 if small size company, or 0 if other.
- Adult = someone who has reached the age of maturity
- Old = the age of a person who is older in their life span
- Company Age = How long has the company been in existence?

The analytical framework employed in this study is based on panel data regression, which is a technique in quantitative analysis.. It is required to do the Hausman test first because the estimate of the panel data regression model can be carried out either using a fixed effect model or a random effect model. The model's estimations, calculations, and testing will all be done with the aid of Stata software.

### 3. RESULTS AND DISCUSSION

#### 3.1 Results

##### a) Model Selection

This research model is divided into two categories based on the dependent variable: sales growth model (PP) and labor growth model (PTK). On the PP and CAR models, they are then divided once more into a fixed effect model and a random effect model. Furthermore, there are 5 (five) variations from each model in the grouping results. Thus, 20 equation models were used in this study.

The model involved in this study reached 20 equations, but not all the results of data processing based on the model were used. From the 20 equations, 2 equations will be selected through testing to determine whether to use a fixed effect model (FEM) or a random effect model (REM). The Hausman Specification Test was used in this work to decide whether to use a FEM or REM model.

##### b) Hausman test result

The Enterprise Survey World Bank (ESWB) data between 2009 and 2015 were used in this section. Following are the results of the Hausman test on the impact model of financial access constraints on the expansion of the workforce for small and medium-sized enterprises (SMEs) in Indonesia.

**Table 1. Hausman Specification Test Results with STATA on Model Labor Growth**

Model	CCS	FC	credit line	Overdraft	Bothloan
Chi <sup>2</sup> Square ( $\chi^2$ )	19.75	26.61	21.04	21.28	20.22
Probability	0.182	0.014	0.072	0.068	0.090

H0 : difference in coefficients not systematic/ Random Effect Model

**Table 2. Hausman Specification Test Results with STATA on Model Sales Growth**

Model	CCS	FC	credit line	Overdraft	Bothloan
Chi <sup>2</sup> Square ( $\chi^2$ )	15.41	17.05	14.75	14.34	14.92
Probability	0.423	0.197	0.323	0.351	0.312

H0: difference in coefficients not systematic/ Random Effect Model

The hypothesis (H0), which claims that the difference in coefficients is not systematic, is rejected since the results of the Hausman Specification Test reveal that the probability of Chi 2 is smaller than the alpha value (0.05). As a result, the fixed effect model was selected.

The data used in this section use enterprise survey data from 2009 and 2015. Hausman test on the model of the effect of financial access constraints on the growth of SMEs sales in Indonesia as follows:

The Hausman Specification Test results show that the probability of Chi<sup>2</sup> is less than the alpha value (0.05), so the hypothesis (Ho) which states

that the difference in coefficients is not systematic is rejected. Thus, the model chosen is the fixed effect model.

### c) Chow Test Result

Whether to employ the model in this section that uses integrated small and medium enterprise data or the model that uses distinct small and medium enterprise data and is estimated individually for the kind of business is up for debate. The Chow test is the approach used to choose which model to apply and whether to segregate small- and medium-sized businesses or combine the model with a dummy variable for the type of business.

**Table 3. Interactive Model Estimation Results Between Independent Variables Against Sales Growth and Labor Growth for Chow Test**

Variable	Sales Growth	Labor Growth
PCCsmall	-0.191 (0.181)	0.0119 (0.0483)
small MCC	-0.0904 (0.190)	0.0266 (0.0506)
small FCC	-0.130 (0.156)	0.0120 (0.0416)
Access to small land	0.00680 (0.156)	-0.00915 (0.0415)
I jinusaha1small	0.0995 (0.168)	-0.106** (0.0448)
Electricity1small	-0.0720 (0.134)	0.0162 (0.0358)
Labor uneducated1 small	-0.364* (0.197)	0.0177 (0.0526)
Labor regulations1small	0.116 (0.186)	0.00530 (0.0495)
small1tax administration	-0.239	0.0508

Variable	Sales Growth	Labor Growth
	(0.170)	(0.0454)
tax rate1small	0.313**	0.0340
	(0.154)	(0.0410)
Transportation1small	0.00680	-0.00915
	(0.202)	(0.0531)
small adult	0.125	-0.0324
	(0.159)	(0.0244)
little old	0.0833	-0.0647
	(0.176)	(0.0469)
D_2015	0.159**	-0.0406**
	(0.0619)	(0.0165)
Constant	0.0758	0.0615**
	(0.102)	(0.0271)
Observations	1,701	1,701
R-squared	0.083	0.070
Number of idstd2015	1,456	1,456

Source: Stata 13 Output

In principle, the Chow test for the case here compares models between small and medium-sized businesses that differ both in terms of constants and slopes. The formulation of the hypothesis is as follows:

$$H_0: \beta_j = 0, j = 1, 2, \dots, p$$

$$H_1: \text{At least one of } \beta_j \neq 0$$

Test criteria reject  $H_0$  if p value  $<$ , where is the level of meaning of the test.

From Table 3 above, for the sales growth variable,  $F = 1.07$  and Probability = 0.3900, while for the labor growth variable,  $F = 0.84$  and Probability = 0.6093. The probability of  $F$  is 0.3900 according to the Chow test results,

which means that  $H_0$  is accepted. This indicates that small and medium-sized businesses have different approaches to performance improvement. As a result, each business sector will use a separate panel model to create its own regression model.

#### d) Estimated results

Sales growth is the dependent variable in five different types of models, as shown in Table 4. . The estimation results of the fixed effect model show that there is no single variable that has an effect on sales growth. This shows that accessibility does not play a role in sales growth. However, in the fixed effect model, there are still problems that must be corrected first.

**Table 4. Estimation Result of SME Accessibility Model with Bound Variable Sales Growth**

Variable	Model				
	CCS	FC	credit line	F Overdraft	Bothloan
PCC	-0.082 (0.156)				
MCC	-0.099 (0.151)				
FCC	-0.099 (0.136)				

Variable	Model				
	CCS	FC	credit line	F Overdraft	Bothloan
FC		-0.123 (0.100)			
credit line			0.0622 (0.0857)		
Overdraft Facility				-0.0380 (0.126)	
Bothloan					0.0659 (0.154)
Constant	0.203 (0.198)	0.129 (0.155)	0.109 (0.155)	0.011 (0.155)	0.119 (0.155)
Observations	1,693	1,693	1,693	1,693	1,693
R-squared	0.094	0.097	0.093	0.092	0.092
Number of idstd2015	1,450	1,450	1,456	1,450	1,450

Standard errors in parentheses and \*\*\* p<0.01, \*\*p<0.05, \*p<0.1

**Table 5. Estimation Result of SME Accessibility Model with Bound Variable Labor Growth**

Variable	Model				
	CCS	FC	credit line	F Overdraft	Bothloan
PCC	-0.0629 (0.0411)				
MCC	-0.0733* (0.0398)				
FCC	-0.0764* (0.0360)				
FC		-0.0338 (0.0267)			
credit line			-0.0064 (0.0229)		
Overdraft Facility				0.0017 (0.0337)	
Bothloan					0.0052 (0.0411)
Constant	0.101* (0.0524)	0.0360 (0.0412)	0.0325 (0.0413)	0.0322 (0.0414)	0.0324 (0.0413)
Observations	1,693	1,693	1,693	1,693	1,693
R-squared	0.096	0.084	0.078	0.077	0.077
Number of idstd2015	1,450	1,450	1,450	1,450	1,450

Standard errors in parentheses and \*\*\* p<0.01, \*\*p<0.05, \*p<0.1

Table 5 also includes five different model types in which the increase of labor is the dependent variable. The estimation show that the MCC accessibility variable and FCC has an effect on labor growth, while PCC, FC, Creditline and Overdraft Facilities do not affect the growth

of the workforce. The control variables that affect the growth of the workforce are business licenses, tax administration, small businesses, adult age and old age which show that business performance (labor growth) increases when these conditions increase (data attached).

Naturally, the above estimation findings cannot be used immediately because the model has not yet been subjected to additional tests. The test, which is a standard hypothesis test, is run to produce a BLUE model. Numerous empirical studies on financial access have been conducted, both with a national and regional scope of investigation. This study is primarily concerned with the reachability of businesses in Indonesia. Because small and medium businesses have varying degrees of accessibility, the company's focus is on small and medium enterprises. At first, estimates were created by merging data from small and medium-sized businesses. This study was ultimately divided into small and medium firms based on the Chow test results since they had different characteristics. Numerous empirical studies on financial access have been conducted, both with a national and regional scope of investigation. This study is primarily concerned with the reachability of businesses in Indonesia.

### **3.2 Discussion**

The results of the study above show that the accessibility of SMEs enterprises. The low accessibility of small businesses in Indonesia is caused by the ability to prepare collateral and limited bureaucratic obstacles. In addition, small businesses are more likely to use internal capital than external, because it is cheaper and requires relatively small capital. This is in line with Beck, Demirgüç-Kunt, Laeven, & Maksimovic (2006) that small companies are more constrained in access to banking than medium-sized companies due to the limited number of small companies in terms of collateral and bureaucracy. The limited constraints faced by small companies make internal and informal financing more reliable (Allen et al., 2012; Beck et al., 2008; and Muravyev et al., 2009). Likewise with Bigsten & Gebreyesus (2007) which suggests that company size is a strong determinant in obtaining credit

with a probability of success of 31 percent, 20 percent, and 13 percent, respectively, for small and medium-sized companies compared to large companies.

Small businesses are less accessible than medium-sized businesses, which is consistent with Mateev et al. (2013) findings that medium-sized businesses may have more negotiating power regarding creditor loans. Another similar study, by Hainz & Nabokin (2013), found that small businesses are 6 percent less likely than larger businesses to be dependent on external financing, suggesting that small businesses rely more on internal resources or have fewer credit demands. Okura (2008) demonstrates the relationship between the size of the business and the use of bank loans to finance an increase in working capital.

Financial accessibility has a positive influence on business performance. The importance of financial accessibility in encouraging business performance is in line with the results of Fowowe's research (2017) in African countries that businesses with easy access to finance grow faster than those with financial constraints (Fowowe, 2017). Likewise with the results of Brown et al. (2005), found evidence that MSEs with access to finance grew faster. Likewise, the results of research conducted by Demirgüç-Kunt & Maksimovic (1998), Companies that rely on external financing expand more quickly in nations with better financial institutions, according to Rajan & Zingales (1998). Furthermore, Wurgler (2000) demonstrates how the evolution of the financial system affects the proportion of resources supplied to productive enterprises.

In this study, performance uses indicators of sales growth and labor growth. Financial accessibility has a greater influence on sales growth performance compared to labor growth in medium-sized businesses, while in small businesses financial accessibility has a smaller effect on sales growth performance compared to workforce growth. This shows that small and medium-sized enterprises tend to be more likely to increase additional physical capital or technology than increase additional labor to encourage business performance.

Another variable related to accessibility in this study is the financial constraint (FC) which shows the extent to which companies are constrained in accessing finance or the extent to which businesses are able to meet the requirements for obtaining loans. Company Those who experience greater difficulty in accessing finance have lower growth, in other words, the company will have lower performance if the financial constraints it faces are greater. As is well known, most small and medium enterprises have financial constraints, meaning that some small and medium enterprises in Indonesia will tend to have low performance. The importance of access to finance is because of the effort Those who are not financially constrained tend to find it easier to increase business physical capital, improve business technology or add skilled workers to improve business performance.

According to research by Gelb et al. (2007) on 26 African nations, businesses typically see financial accessibility restrictions as the biggest barrier in comparison to other restrictions. In the study by Dinh et al. (2012), which used a sample of more than 39,000 businesses in 98 countries, access to finance was also ranked as the biggest or second biggest barrier for businesses in Eastern and Central Asia, Sub-Saharan Africa, East Asia and the Pacific, the Middle East and North Africa, and South Asia.

Participation in the financial market, which in this study uses indicators Credit Constraint Status (CCS). The CCS component consists of FCC, PCC, MCC, and NCC. The CCS variable is a variable that shows the status of credit constraints that see the extent to which a business can access the financial market. Business participation in the financial market can also be seen from credit lines, overdraft facilities and both loan. Based on the data and research results show that the number of businesses that can participate in financial market participation is almost the same as those that can participate, it can be seen from the high PCC. In terms of the level of participation, the results of the study show that most businesses tend not to participate in financial markets.

The findings indicate that small and medium-sized businesses' performance in terms

of sales growth might be impacted by their access to financial market involvement. Access to financial markets, meanwhile, has no impact on the expansion of the labor force. As a result, companies that have access to financial markets experience rapid sales growth. The company will see greater sales growth the more financial marketplaces it has access to. Conversely, the rate of sales growth will be lower for credit-constrained businesses without access to financial markets.

With regard to the performance of labor growth, this result is different from the results of previous studies which stated that businesses that are able to access the financial market have good performance in labor growth. This shows that SMEs in Indonesia that are able to meet the requirements for financial market participation tend to be capital intensive compared to labor.

This study demonstrates how financial market participation affects firm success by boosting both sales growth and labor growth. This finding is consistent with those of Fowowe's research from 2017, which found that more people than usual participate in the financial market. This is so that companies can raise the size of their existing personnel while driving sales growth through participation in financial markets. However, the impact of financial market participation typically has a higher impact on sales growth than on employment growth.

The findings show that there are differences between having access to and being able to access the financial market. Businesses who can access the financial market may not always make an effort to increase their financial capacity in order to improve performance, but businesses that participate in the financial market do make an effort to increase their financial capacity in order to improve performance through external loans. The results lend support to the view that financing is critical to business growth, and justify the many actions and initiatives being undertaken to generate more funds for companies in Indonesia. SMEs that have easy access to finance will be free to develop their businesses either through business intensification or extensification.

The results also show that there are differences in business performance between 2015

and 2009. This shows that the external (macro) environment conditions in 2015 were better than 2009. These external conditions could be caused by government policies or the increasing market for small businesses. and medium. Transport is a crucial external factor for small and medium-sized businesses. Because transportation will further increase efficiency and effectiveness in the distribution of goods and services for SMEs, it is crucial for promoting the sale of business results.

#### **4. CONCLUSIONS**

This research makes an effort to analyze the effects of financial accessibility, financial restraints, and participation in financial markets on labor growth and sales growth of SMEs in Indonesia using data from the ESWB in 2009 and 2015. The study's findings led to the following conclusions. Firstly, compared to small businesses, medium-sized enterprises have more access to financial markets. This is related to the readiness and fulfillment to be able to enter the financial market more medium businesses than small businesses. Financial accessibility has a greater influence on sales growth compared to labor growth in medium-sized businesses, while in small businesses financial accessibility has a smaller effect on sales growth compared to labor growth. This shows that small and medium enterprises tend to increase additional physical capital or technology more than increase additional labor to encourage business performance.

Secondly, financial constraints have an impact on the performance of small and medium-sized businesses, indicating that most businesses that are currently in operation typically face financial constraints. The number of small companies that are not financially constrained is more than the number of companies participating in the financial market. Companies that are not financially constrained will find it easier to increase business physical capital, improve business technology or add skilled workers to improve business performance.

Thirdly, the expansion of SMEs' sales may be impacted by their access to financial market participation. Access to financial markets, meanwhile, has no impact on the expansion of the

labor force. As a result, companies with access to the financial markets experience rapid sales growth. The company will see greater sales growth the more financial marketplaces it has access to. Thus, without access to financial markets, credit-constrained businesses saw slower sales growth. Financial market participation affects firm performance in terms of both employee and sales growth. This is because businesses that participate in financial markets in driving their sales also increase the number of existing workers. However, the effect of participation in the financial market tends to have a greater effect on sales growth than employment growth.

Based on the conclusions above, the researcher would like to propose several policy proposals, namely:

- 1) SMEs in Indonesia overcome their financial challenges, the government must provide banking institutions with.
- 2) There must be a coordinated effort to remove barriers to acquiring financing and expand access to financing. A proper knowledge of the structure of the financial system and how (SMEs) interact with financial markets are two topics that must be addressed in order to overcome these challenges.
- 3) SMEs must be financially literate and included in the financial system in order to possess access to a variety of accessible financial goods and services. Online loan services are needed with a faster process through the financial technology (fintech) system to facilitate financial distribution.

#### **5. LIMITATIONS**

Research on the performance of small and medium enterprises (SMEs) in Indonesia as influenced by financial accessibility is an important topic, but such research can have several limitations that need to be taken into account. Some general limitations that may be encountered in this kind of research include:

- 1) Available data may be limited, especially for small SMEs that do not have detailed financial reports. Insufficient data can limit the analysis and generalization of

research results.

- 2) The methods used to collect data and analyze it may have limitations. For example, survey or interview methods may have respondent bias, while secondary data analysis may be limited by the quality of the data available.
  - 3) Important aspects that influence SME performance, such as social, cultural, or environmental factors, may be difficult to measure and include in the analysis.
  - 4) Research often has certain time constraints, which can hinder a deeper understanding of the impact of financial accessibility on SME performance in the long term.
  - 5) Determining the causal relationship between financial accessibility and SMEs performance can be difficult, as many other factors can also influence SME performance.
- 4) Banks and financial institutions should offer easy small credit products, with simpler requirements and faster approval processes. This will make it more likely that SMEs will get access to the funds they need.
  - 5) Facilitating the use of financial technology such as digital banking applications, technology-based payment services and online loans will help SMEs utilize financial resources more efficiently.
  - 6) Governments and business organizations can support the creation of SME networks or associations that enable them to share knowledge, experience and financial resources.
  - 7) The government needs to monitor and evaluate the effectiveness of financial accessibility programs that have been implemented. This will help in determining whether these programs have a positive impact on SME performance.
  - 8) Reducing bureaucracy and speeding up the business licensing process can help SMEs gain access to financial support more quickly.

## 6. RECOMMENDATIONS

The performance of small and medium enterprises (SMEs) in Indonesia can be greatly influenced by financial accessibility. Financial accessibility refers to the ability of SMEs to access funds, loans and other financial resources necessary for the growth and development of their businesses. The following are several suggestions and recommendations that can help improve the performance of SMEs in Indonesia through increasing financial accessibility:

- 1) The government can work with local banks and microfinance institutions to develop financial products and services that better suit the needs of SMEs. These include microloans, small business credit, and affordable savings services.
- 2) Providing financial training and education to SME owners will help them understand the importance of good financial management. This can help them manage funds more effectively and improve their ability to meet loan requirements.
- 3) The government can help SMEs to access capital markets through fiscal incentives and assistance programs. This could include ease of listing on stock exchanges

or support for corporate bond issuance. Increasing financial accessibility is key in supporting the growth and performance of SMEs in Indonesia. Efforts to facilitate better access to finance will help SMEs to overcome their financial challenges and increase their contribution to the country's economy.

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