

Banking Financial Accessibility among Traditional Market Traders in Brastagi City

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Abstract

Traditional market always considered as a part of small marginalized community although they play an important role to develop economic of a developing country. As Business development will possible develop if the business gains an easy access for the source of fund. Source of fund play an important role in managing business that can be come from variety sources of external fund but in this study focused on source of fund from formal Banking. Traditional market is one of the forms of SME (Small Medium Entepries). This study aims in mapping the condition of banking financial accessibility in traditional market with 120 respondents in Brastagi City, Indonesia. There are several factors that can be used to measure the banking financial accessibility that is access to formal banking services, access to transaction, access to savings, access to credit/loan. The research found that most of the traditional market traders have an account in banking institution but they do not used credit/overdraft because they tend to use their owned wealth in order to finance the business activity. The traditional markets traders can be implied to be in low degree of financial accessibility although almost of them have an account but only a few of the traditional market traders have an access to the line of credit or overdraft.

Keywords: *financial accessibility, banking, traditional market, SME,*

1. INTRODUCTION

Traditional market always considered as a part of small marginalized community although they play an important role to develop economic of a developing country. Traditional market is one of the forms of SME (Small Medium Enterprise). This SME has a function and strategic role in increasing income of the community and also absorb worker employment. In 2012, according to ADB-OECD worker in SME business absorb 97.2% and contributed 59.1% of GDP in Indonesia. Beside its strategic role, traditional market trader still have many insufficient image, therefore traditional market trader have to do the hard work to be exist in this increasing competition environment. Due to the importance of SME in relation to the economic development in a country (Koh et al, 2007) (Chen, et al, 2012) one of the biggest problem faced by traditional market traders in Indonesia is the lack access to financial services particularly from formal Banking. The problem of access to financial sources for the traditional market traders exist when its business activity that would be internally finance if the resources were available, does not get supports from external formal banking institutions. The absence of financial support for the traditional market traders is perhaps due to insufficient legal paper, insufficient information, and insufficient awareness. The lack of financial access limits the range of services and credits for traditional market traders. Poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education and businesses, which limits their full potential and leading to the cycle of persistent inequality and diminished growth.

1.1 Problem statement of the study

To address these problems, this research aim is to examine the existing condition of traditional market traders' access to Banking to finance its business. More specifically, this research investigates the factors that measuring the banking accessibility of the traditional market traders in Brastagi City. There are several factors that can be used to measure the banking

financial accessibility that is access to formal banking services, access to transaction, access to savings, access to credit/loan. Moreover, the characteristic of traditional market trader will be examine such as year of establishment, number of employment, obstacles facing this traditional market trader to financial sources used for maintain business. In addition, this research aim to mapping whether the traditional market traders were voluntary exclusion or involuntary exclusion.

1.2 Literature review

Based on Presidential Decree Republic of Indonesia no: 112/ 2007, Traditional market " is a market that is built and managed by the Government, Local Government , Private , State Owned Enterprises and Regional owned Enterprises including cooperation with the private sector provide businesses with shops , kiosks , stalls and tents owned / managed by small traders , medium , NGOs or cooperatives with small-scale enterprises , small capital and the process of buying and selling merchandise through bargaining. The traders in traditional market is part of SME (Small and Medium Enterprise) because they only need small amount of capital, small business operation and only have small amount of workers. But, although they play a crucial role in economic growth and employment the small and medium enterprises (SMEs) in developing countries face a financing gap (Beck & Demirguc-Kunt, 2006; Dube, 2013) related to difficulties in small and medium enterprises (SMEs) access to finance that undermines economic prosperity small and medium enterprises (SMEs) are a fundamental part of the economic in developing countries. They play a crucial role in furthering growth, innovation and prosperity. Business development will possible develop if the business gain an easy access for the source of fund. Source of fund play an important role in managing business that can be come from variety sources of external fund.

Access to finance is the ability of individuals or enterprises to obtain financial services including credit, deposit, payment, insurance, and other risk management services. Access to external finance is a key determinant of a firm's ability to develop, operate and expand.(Bougheas et al,2006; Gonzales et al,2007). In Indonesia, SMEs are recognized as a fundamental asset of the economy. They accounted for more than 99 percent of total enterprises in 2009, a slight increase when compared to the previous year of 2008. (Machmud et al 2009). Access to finance is the ability of individuals or enterprises to obtain financial services including credit, deposit, payment, insurance and other risk management services. Those who involuntarily have no access to financial services are referred unbanked. And those who have only limited access to financial services are referred underbanked. Involuntary non-users want to use financial services, but do not have access due to a variety of reasons: First, they may be unbankable because their low income prevents them from being served commercially (i.e. profitably) by financial institutions; second, they may be discriminated against based on social, religious, or ethnic grounds; third, they may be unbankable because contractual and informational networks (such as high collateral requirements or a lack of information from credit registries) prevent financial institutions from commercially serving these non-users; finally, the price or features of financial services may not be appropriate for the population groups of the non-user.

According to Keiding (2013) the financial institutions are mostly private entities which are guided by profit maximization objective. Contrary to this objective not all individuals who apply for financing are granted access. Thus the market for credits is not balanced through the price mechanism. Individuals may be denied credits even if they are willing to pay arbitrarily high interest rates. –can be considered at the heart of financial access. And the more frequent the need for the service, and the greater the number of persons using a service, the greater its importance. Access to transactions services– whether it is possible to make or receive simple (non-barter) payments permit a variety of payments services. A second tier of other providers of such services could include correspondent Safeguarding of money is the most basic savings service (thus including unremunerated savings) accumulation next (earning

returns on assets, and not only preservation), and seeking high returns in the third order, through the transformation of simple savings into investment products, as described above. Finmark has offered the definition that credit involves the 'extension of monetary value for personal usage and on promise of repayment of principal (with likely interest and arrangement charges)'. However loans, even to individuals on a personal basis, could be for business usage, especially for the poorest.

On a functional basis, access to a specific loan, individually applied for, is the most traditional concept. With financial deepening, there is an increased expectation that some form of credit access will become widely available, especially, consumer credit, as well as credit for purchase of housing or vehicles. An increasing proportion of personal credit services are offered through standing arrangements such as lines of credit (e.g. through a card, or an overdraft facility).

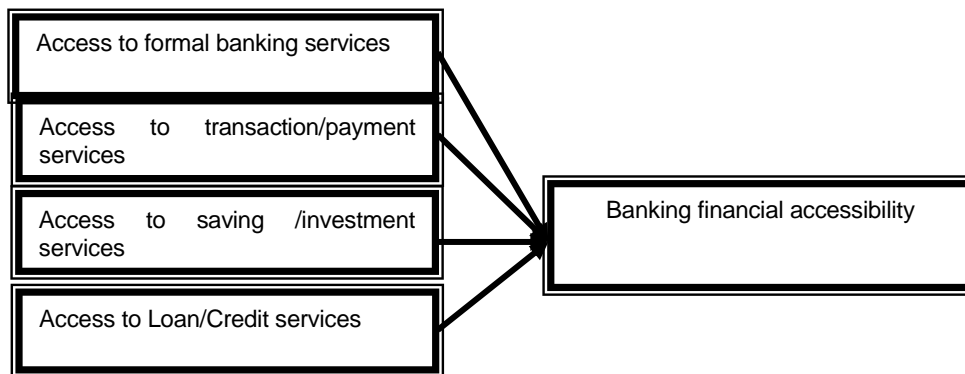


Figure 1: Theoretical framework

2. METHOD AND MATERIAL

This research used the combination of quantitative and qualitative research with combination method between descriptive method and exploratory method that attempt to examine the situation in order to establish what the real condition exist. This research was conducted in 2 different traditional markets in Brastagi City. All of the traditional market traders were subject to be the sources of quantitative data which is the total number of the respondents were 120 traditional market traders.

2.2 Data collection method

This research relies on questionnaire as a means of collecting data in order to examine the people's perception of a different group of respondent. This research used simple random sampling where each and every trader in the population has an equal chance of inclusion in the sample and each one of the traders has the same probability of being selected. The questionnaire was distributed to the traditional market traders and they will be interviewed in filling the questionnaire. Then, the questionnaire collected and analyze by descriptive analysis.

3. ANALYSIS AND RESULTS

3.1 Validity and reliability test

In this study, validity and reliability test has been done. The result is all the statements are valid because all the questions have r value greater than r table (0.361). As for the Cronbach alpha reliability test is obtained 0.980 which is greater than 0.75 so this research questionnaire is reliable, and the questionnaires can be distributed to the respondents

3.2 Descriptive Analysis Result

Table 1: Year of Establishment

No	Year of establishment	Frequency	Cumulative Percent
1	< 1 year	2	1.70
2	> 1 year	118	98.30

The study found that traditional market trader have been doing the business more than one year (98.30%), it means they can maintain their business over the years.

Table 2: Ownership

No	Ownership	Frequency	Cumulative Percent
1	Self ownership	59	49.20
2	Rent	61	54.80

Table 3: Number of employment

No		Frequency	Cumulative Percent
1	None employment		
2	Have employment	35	

From Table 3, the study found that almost all of the traders do their business alone without any employment but some of the traders have several workers that help them in doing business.

Table 4: Having an Account with a Bank

NO		Yes	percent	NO	Percent
1	Have a Account	100	83.30	20	16.70
2	Have an account with another formal FI	32	26.70	88	73.30
3	Have an access to account through other family member	52	43.30	69	56.70

From Table 4, the study found that almost all the traders have an account in a bank.

Table 5: Access to Transaction Services

No		Yes	Percent	No	Percent
1	Paid by transfer to the account	48	40.00	72	60.00
2	Paid utilities	5	4.20	115	95.00
3	Has made/receive an international remittance	0	0.00	120	100.00

From Table 5, the study found that only a few of the traders use the bank as a tool for their financial transaction.

Table 6: Access To Saving

No		Yes	Percent	No	Percent
1	Has any cash saving	86	71.70	34	28.30
2	Has earn money on bank deposit	13	10.80	107	89.20
3	Has investment instrument	7	5.80	113	94.20

Table 8: Access to Credit/Loan

No		Yes	Percent	No	Percent
1	Has had a loan	53	44.20	67	55.80
2	Has currently access to credit trough a line of credit/overdraft	10	8.30	110	91.70
3	Has now had a loan for the emergency	37	30.80	83	69.20

From Table 8, the study found that only 8.30% of the traders have currently access to credit through a line of credit/overdraft.

Table 9: Access to Credit/Loan

No	Yes	Percent	No	Percent
1 Never applied	45	37.50%	75	62.50%
2 Has applied but rejected	30	66.67%	15	33.37%

4. DISCUSSION

Looking at the most of traditional market traders has an account in a bank (83.30%), thus this indicate that this traders also has the capacity to convert check into cash, draw money and send money. But moving up from the concept of cash access, the extent to which traders can make other frequently but more complex transactions through the payment network for example payment utilities provide the indicators of the banking financial accessibility. Payment utilities on monthly cycle in Indonesia. This condition can be used as a gauge for the degree of financial access. As study found that almost 95% of the traders not paid utilities by banking and only 4.20 % used the banking. It can be implied the financial accessibility is in low degree.

The purpose of cash saving is to seek save store only, this already ensure that the traders (71.70%) had this facility available but they had not choose the account form of remunerated saving account because the traders not investigate the extent to which savings are invested. The study found that only 8.30% has earned money on bank deposit neither has investment instrument (7.00 %). Since the traders only have an account in order to seek only safer store for their money not for investment, so it can implied that this condition give a view of the financial accessibility is in low degree.

Until now, credits still assume special importance as it provides a means to productive investment, which lead to higher income in the future. The traders as much as 44.20%% had a loan and 55.80% had no loan. But in the view of the increasing importance of credit facilities through a line of credit/overdraft, almost all of the traders have not a line of credit (91.70%) Further, to measure the deepening financial access, the traders were asked whether they have a loan for the emergency, and they answered they has a loan for the emergency (69.20%). The traditional market traders use the external finance relative low (91.70% have no line of credit/overdraft), this is in line with the report by the comptroller Auditor General, NAO, in UK, 20013). So it can say that the traders in Brastagi City are in low degree of financial accessibility. Attempts to measure voluntary exclusion of banking financial accessibility that 55.80% of the traders has no loan because they never applied for the loan/credit as much as 40%. It hard to investigate the reasons for barriers to financial accessibility but it can be interpret as much as 40% out Of 55.80% (who had no loan) that can be said unbanked (voluntary exclusion) and from that the proportion of 60% of this group out of 55.80% who applied for credit and was rejected (involuntary exclusion).

5. CONCLUSIONS AND RECOMMENDATIONS

Having an account is the most prevalent financial services in two traditional market in Brastagi City, the use of this service was found 83.30 % of the respondent. Access to Banking financial is not the biggest problem facing the traders in traditional market but most of the respondent have not used it for doing regularly payment or have a line of credit/overdraft, so it can be said that the traditional market trader have banking financial accessibility but in low degree. Yet over 50% of the respondent do not see any obstacles to obtain financing. Access to finance is

not the biggest problem facing the trader in Brastagi City since as only ---- consider lack or limited access to banking financial accessibility.

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