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A Study of the Impact of Bank Credit on the Performance of Micro, Small, and Medium Enterprises in the Province of Gorontalo <i>Andi Juanna, Zainal Abidin Umar, Citra Aditya Kusuma</i> <i>Department of Management, Faculty of Economics, State University of Gorontalo</i>	
<p>Abstract: In Indonesia, the vast majority of businesses belong to Micro, Small, and Medium Business (MSMEs). In 2014-2016, for example, several MSMEs exceeded the amount of 57,900,000 units, and was the object of estimation that predicted over 59,000,000 units of growth. Cooperatives and MSMEs Office of the Gorontalo Province (2018) states that this figure increased between 2012 and 2017. MSMEs had 42,523 units in 2012, but 81,776 units in 2016 or a 52% increase over 5 years. Out of this number, only 50 MSMEs are fostered by the government. Due to a lack of government budget, only a few MSMEs have been helped by the government. MSMEs received credit transactions from banks worth Rp 468,280,272,160, or a 250% increase from 2015. In this study, therefore, we analyze how much bank credits influences the development of MSMEs. Drawing on a descriptive research, this present study employed literature studies approach to conduct the process of searching, collecting, and analyzing data. The results revealed that the performance of the MSMEs sector in the first quarter of 2019 as a whole also improved. MSMEs lending in the first quarter of 2019 grew by 7.62% (yoy), an increase from the fourth quarter of 2018 which was 4.22% (yoy). This condition pushed the portion of MSMEs credit to total bank credit to increase to 27.93% from the previous 27.75%. The existence of MSMEs continues to be supported by Bank Indonesia through a policy on the percentage of credit that must be disbursed to MSMEs with a minimum portion of 20% of MSMEs loans. This portion in the first quarter of 2019 has been increased to 27% of total loans in the Province of Gorontalo.</p> <p>Keywords: MSMEs, credit, Bank Indonesia.</p> <p>Introduction</p> <p>Micro, Small and Medium Enterprises (MSMEs) comprises the largest amount of business congestion in the Indonesian economy. Because this group has proven to be resistant to various kinds of shocks from the economic crisis, it is important to strengthen the MSMEs group. The businesses set of criterion that belongs to MSMEs have been met with regulation in the Law of the Republic of Indonesia #20 of 2008 regarding Micro, Small and Medium Enterprises (MSMEs).</p> <p>During the period of 2014-2016 saw the great many of MSMEs that exceeded 57,900,000 units and in 2017 it was estimated to experience growth over 59,000,000 units. The President of the Republic of Indonesia stated in 2016 about MSMEs with a great resilience condition are going to support the</p>	
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Abstract: In Indonesia, the vast majority of businesses belong to Micro, Small, and Medium Business (MSMEs). In 2014-2016, for example, several MSMEs exceeded the amount of 57,900,000 units, and was the object of estimation that predicted over 59,000,000 units of growth. Cooperatives and MSMEs Office of the Gorontalo Province (2018) states that this figure increased between 2012 and 2017. MSMEs had 42,523 units in 2012, but 81,776 units in 2016 or a 52% increase over 5 years. Out of this number, only 50 MSMEs are fostered by the government. Due to a lack of government budget, only a few MSMEs have been helped by the government. MSMEs received credit transactions from banks worth Rp 468,280,272,160, or a 250% increase from 2015. In this study, therefore, we analyze how much bank credits influences the development of MSMEs. Drawing on a descriptive research, this present study employed literature studies approach to conduct the process of searching, collecting, and analyzing data. The results revealed that the performance of the MSMEs sector in the first quarter of 2019 as a whole also improved. MSMEs lending in the first quarter of 2019 grew by 7.62% (yoy), an increase from the fourth quarter of 2018 which was 4.22% (yoy). This condition pushed the portion of MSMEs credit to total bank credit to increase to 27.93% from the previous 27.75%. The existence of MSMEs continues to be supported by Bank Indonesia through a policy on the percentage of credit that must be disbursed to MSMEs with a minimum portion of 20% of MSMEs loans. This portion in the first quarter of 2019 has been increased to 27% of total loans in the Province of Gorontalo.

Keywords: MSMEs, credit, Bank Indonesia..

Introduction

Micro, Small and Medium Enterprises (MSMEs) comprises the largest amount of business congestion in the Indonesian economy. Because this group has proven to be resistant to various kinds of shocks from the economic crisis, it is important to strengthen the MSMEs group. The businesses set of criterion that belongs to MSMEs have been met with regulation in the Law of the Republic of Indonesia #20 of 2008 regarding Micro, Small and Medium Enterprises (MSMEs).

During the period of 2014-2016 saw the great many of MSMEs that exceeded 57,900,000 units and in 2017 it was estimated to experience growth over 59,000,000 units. The President of the Republic of Indonesia stated in 2016 about MSMEs with a great resilience condition are going to support the

national economy, even amidst the occurrence of a crisis of global scale.
MSMEs are the backbone of the Indonesian and ASEAN

economy. Approximately 88.8-99.9% business forms within ASEAN consists of MSMEs with 51.7-97.2% of employment rate. MSMEs owns 99.99% proportion of the total amount of business in Indonesia which is equal

56.54 million of units. Hence, there is a necessity to prioritize cooperation for MSMEs development and resilience.

The development of MSMEs has significantly increased the number of employment rate. There is also an opportunity for MSMEs to be able to grow and vie with companies in display of tendency in use larger capital (capital intensive). In addition, the existence of MSMEs has become economy driving force, especially in the aftermath of the economic crisis cease. However, MSMEs are experiencing various challenges, such as poor human resources, constrained working capital, and lacking knowledge in terms of technology and science (Sudaryanto and Hanim, 2002).

Empowerment of MSMEs in the midst of globalization along with high competition compelled MSMEs to anticipate challenges on global proportion, such as the increase of innovation for product and service, development for human resources and technology, and expansion of marketing span. MSMEs need to increase their sales and value in order to contend against products of foreign caliber which are flooding both industrial and manufacturing centers within the scope of Indonesia, because MSMEs are considered vital sectors of economic aspect that may recruit the largest workforce in Indonesia (Sudaryanto, 2011).

In 2011, MSMEs significantly contributed to state revenue by Gross Domestic Product (GDP) income through tax payments with the amount of 61.9 percent, described in the following elucidation: micro business - 36.28% GDP, small business - 10.9% GDP, and medium-sized business - 14.7% GDP through tax payments. Further, the large business sector merely contributed the amount of 38.1% GDP (BPS, 2011).

Almost 99 percent of MSMEs in Indonesia comprises micro-enterprises in informal sector with general use of raw materials and markets of local grade. Therefore, the global crisis have no direct effect towards MSMEs. The 2010 World Economic Forum (WEF) reports on the position of the Indonesian market which attained 15th rank. This means Indonesia is other nation's potential market. However, MSMEs did not fully utilized such opportunity. For MSMEs to develop its potential in Indonesia is inseparable with banking support by loans to MSMEs. The number of credit to MSMEs experiences growth every year and it surpassed the total bank credit. MSMEs loans are considered as an option for funding for encompassing enterprises that meet the definition and criteria regulated by the Law of the Republic of Indonesia #20 of 2008 on MSMEs. Based on said law, MSMEs are identified as productive businesses based on business criteria with particular limits for both net worth and yearly sales.

According to Gorontalo Province Cooperatives and MSMEs Office (2018), the number of MSMEs has increased during 2012 – 2017. In 2012, for instance, the number of MSMEs was 42,523 units, and in 2016 was 81,776 units. There has been an increase of 52% over 5 years. However, only 50 SMEs that are assisted by the government because the lack of government budget has caused only a few MSMEs to obtain government's assistance. The credit value for transactions from banks for the development of MSMEs reached Rp 468,280,272,160 or increase of 250% as compared to 2015. In light of the notion, this study aimed to determine the impact of bank lending on the development of MSMEs.

Method

In this study, a descriptive research approach was used. We researched, collected, and analyzed data using literature studies on several reliable sources, such as Bank Indonesia, the Office of

Cooperatives and MSMEs, Ministry of Cooperatives and MSMEs and the Statistics Indonesia Government Body (BPS). Data analysis involved tabulating and illustrating quantitative data in graphs for easier understanding.

Results and Discussion

1. Obstacles of MSMEs

There are a number of obstacles preventing the growth of MSMEs in Indonesia. These obstacles include poor infrastructure, slow bureaucracy, high level of taxes, and lack of government access to government services. Although MSMEs are said to be resilient, there are many and serious problems that have to be faced. Alongside the indirect effects of the global crisis, MSMEs have to deal with domestic problems that were left unresolved consisting of labor and illegal levies, labor wages, as well as corruption.

Another problem is the existence of trade liberalization, such as when the ASEAN-China Free Trade Area (ACFTA) was implemented since 2010. The Government has agreed to an ACFTA accords of cooperation or other kind regardless of SMEs preparedness which the MSMEs' competitive prices and product quality, market readiness and also the lack of a clear understanding of imported products and competitors' market positioning. This condition becomes more challenging for the MSMEs in Indonesia if the ASEAN Community is implemented in 2015. In these circumstances, MSMEs which are predicted to exercise resiliency and survivability will suffer bankruptcy as well. Hence, an endeavor to fortify MSMEs to be what is known as the national economic fundamentals will be needed by creating conducive domestic investment climate in order to establish MSMEs as a national economy buffer. Another obstacle as well as a vulnerability of MSMEs is the lacking access to information, particularly market information (Ishak, 2005).

2. The Role of Commercial Banks in Supporting MSMEs in the Province of Gorontalo

In order to encourage the development of MSMEs in Indonesia, Bank Indonesia has four basic development policies, i.e. i) Supporting the Maintenance of Volatile Food Inflation; ii) Supporting Exports and Tourism; iii) Improving Financial Access; and iv) Applying Sharia Principles. The existence of these development policies encourages the emergence of local economy-based MSMEs development for strategic inflationary food commodities such as cayenne pepper, onions, rice, and tomatoes, as well as Local Economic Development (LED) commodities (e.g. Karawo Embroidery, Water Hyacinth Crafts, and Coconut Products).

The LED of MSMEs group, which is currently being supported by the Gorontalo Province KPwBI, is the selection of leading MSMEs group based on one or more of the five MSMEs' leading development themes, namely: i) Border/Lagging Areas; ii) Empowerment for Women; iii) Fishermen; iv) Creative Industries; and v) Export Commodities/Import Substitutions. Today, the active role of developing the MSMEs sector has been carried out by all domestic representative offices of Bank Indonesia, both at the provincial and city levels, including the Bank Indonesia Representative Office of the Province of Gorontalo (Provincial KPwBI). The MSMEs development program at the Gorontalo Province, known as KPwBI, is an integrated activity and tiered according to the conditions of BI-assisted MSMEs clusters. In general, several MSMEs development activities have been carried out to provide production facilities and also to increase human resource capacity. Various clusters have been developed through MSMEs development program from December 2017 until May 2019, such as Beef cluster, Cayenne Pepper cluster, Karawo embroidery craft cluster, Water hyacinth craft cluster, Shallot cluster, and Organic Rice cluster.

Highlights on MSMEs development work carried out by KPwBI, especially for the development of the Leading MSMEs Embroidery Karawo and Water Hyacinth Craft, is the participation in various national and international events. These events include Karawo Carnival which is held every year, International Couture New York Fashion Week 2017, Artisan & Product The 2018 Exhibition in New York, United States, the 2018 IMF-WB Bali Exhibition, Indonesia Fashion Week 2019, and the Visit of the Vice President for KPwBI Gorontalo Province. The involvement in exhibition activities as part of the KPwBI of Gorontalo Province Leading MSMEs become one of its further marketing strategies by promoting high-quality local brands. In accordance with the marketing management strategy developed by KPwBI, Gorontalo Province adheres to the 4P strategy consisting of Product, Price, Place and Promotion. Based on this strategy, the branding of Karawo Embroidery and Water Hyacinth Crafts was built with the following criteria:

a. Products, made according to the specifications of the targeted consumers (high end, medium high, and middle low consumer). Determination of consumer group targeted by MSMEs has implications for product quality, marketing locations, and marketing methods. In 5 groups of MSMEs, Sulaman Karawo has various consumer segments according to the capacity they have. The Rumah Karawo group and the Tiar Handmade group target high-end consumers with the types of products produced with exclusive characteristics in terms of motifs, designs, and a limited number of products. Meanwhile the Seruni Group, Sumber Usaha Group, Nirwana Group, Sartin Group, Alata Group, and Jaya Business Group target medium high consumers with more mass production quantities and relatively more affordable prices.

b. Price, the price is formed based on the principle of competitiveness, and the class of consumers being targeted. In determining product prices, the competitive aspect of the market is taken into consideration, as are the levels of potential consumers.

The creation of prices for high-end consumers is largely determined by the work being sold, the level of complexity, and the subjectivity of the purchaser. As for medium high and middle low consumers, the price is determined by similar items on the market.

c. Choosing a location as a selling point with high foot traffic, easy access, and adequate facilities such as parking lots, broadband internet service, as well as friendly and professional employees. A selling point is important for the brand image of the product and the determination of the selling point can adjust and change depending on the product being sold. Factors such as high foot traffic affect the number of potential buyers. A variety of supporting facilities like parking lots and accessibility may also affect foot traffic at sales locations.

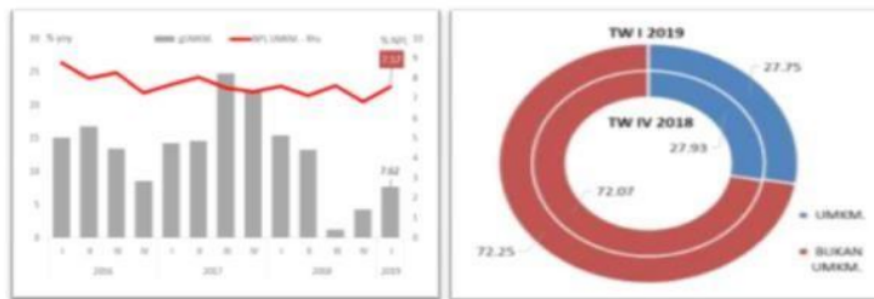
d. Promotions, participation of Leading MSME Group in various national and international exhibitions that are backed by endorsements of various public figures. The types of promotion carried out include traditional methods, as well as advancements in the telecommunications industry, such as using market place platforms and social media to reach a diverse audience. By implementing the Digital MSME program, Bank Indonesia encourages every MSME to operate an online store and website to tap into the potential of the national and international markets.

3. Impact of MSME Loans on the Development of MSME

Overall, the performance of the MSMEs sector in the first quarter of 2019 was also improved. MSMEs lending in the first quarter of 2019, for example, grew by 7.62% (yoy), showing an increase from the fourth quarter of 2018 of 4.22% (yoy). This condition pushed the portion of MSMEs credit to total bank credit to increase to 27.93% from the previous 27.75%, above the minimum

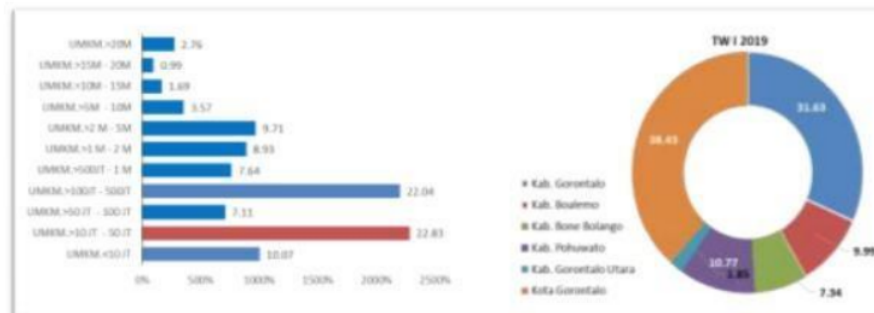
observed in line with the NPL which reached 7.57%, far above the indicative target of 5%. Given the important role of MSMEs in the economy, Bank Indonesia continues to carry out various work programs for the development of MSMEs. On the other hand, Bank Indonesia also continues to innovate,

In line with the general condition of banking credit, the growth rate of MSMEs credit was also recorded to increase. MSMEs loan growth from the original 4.22% (yoy) in the fourth quarter of 2018 turned to 7.62% (yoy) in the first quarter of 2019. The increase in MSMEs loan disbursement growth was influenced by the increasing need for MSMEs business actors for capital in facing the Month of Holy Ramadan and the presidential and legislative elections 2019. This had an impact on increasing business activity. In terms of credit risk resilience, MSMEs credit risk pressure increased. MSMEs loans in the first quarter of 2019 experienced increased pressure as reflected in the NPL of MSMEs loans, which was 7.57% (yoy) from 6.82% (yoy) in the previous quarter.



Pictures. Growth of Credit and MSMEs' Market Share Over the Overall Credit in Gorontalo (Source: Bank Indonesia, 2019)

The share of MSMEs credit in Gorontalo is quite stable. It increased by 27.93% in the first quarter of 2019, which was 27.75% in the previous quarter. Based on the nominal credit group, the majority share of MSMEs loan realization in the first quarter of 2019 was channeled in the nominal range of <10 million, which was 22.83% and the nominal range of > 100 million IDR 500 million by 22.04%. On the other hand, based on the distribution of regions per Regency and City in Gorontalo, in the reporting period the largest concentration of MSME credit realization was still in Gorontalo City with a share of 38.43% and followed by Gorontalo Regency at 31.63%.



Pictures. Credit Market Share Based on Nominal and Region (Source: Bank Indonesia, 2019)

In order to promote the existence of MSMEs, Bank Indonesia continues to set a policy for the percentage of loans that must be offered to MSMEs with a minimum of 20 percent of the total amount. In the first quarter of 2019, this portion has been increased to 27% of total loans in Gorontalo province. In Bank Indonesia's assessment, this policy can enhance the growth of quality MSMEs, but the high NPL of MSMEs, which is higher than NPL of non-MSME loans, warrants attention, especially in the selection of debtors who apply for credit.

To boost the performance of the Gorontalo MSME sector, Bank Indonesia has taken various steps and efforts, including the following:

1. Development of various agricultural and livestock clusters in several areas of Gorontalo.
2. Implement water hyacinth training programs for MSME business groups.
3. Monitoring of beef cattle cluster development.
4. Refreshment of training materials for making organic fertilizer using cow dung to the BI-assisted beef cattle cluster in order to increase competence and provide innovation development ideas to the group.

As a result of this training, the group's productivity is expected to increase. Initial preparations have been made for the development of an integrated agricultural area in the Lamuta Group III, one of the organic rice clusters assisted by BI that has received organic rice certification from Succofindo. The development of integrated agricultural areas is expected to further increase the production capacity of organic rice. Although declining, the role of the informal sector in employment in Gorontalo until February 2019 still dominates, especially those from the MSME sector. The share of informal workers in Gorontalo reached 57.27% or 362,802 people, a decrease from August 2018 which reached 61.27%. Meanwhile, the share of formal sector workers tends to increase from February 2019 from 37.66% or 225,901 people to 40.40% or 244,924 people.

Recommendations

1. The MSMEs development strategy or the Krawang Industrial Center can be carried out through coaching and training for SMEs by considering the technical problems that MSMEs have been experiencing.
2. The specific stratagem with the purpose of developing Micro, Small and Medium Enterprises (MSMEs) within the Province of Gorontalo that is inseparable from banking support, particularly loans. In status quo, a happening alternative in the form of the credit scheme among the community is the People's Business Credit (KUR), which is design with the specifications of MSMEs that is included in viable business denomination without any sort of looming collateral. In addition, easy access and capacity building programs to reinforce MSME assistance institutions are to be implemented by providing said programs with the likes of training and research conduct which can support MSMEs credit provision.
3. The tactic that can help anticipate the market mechanism that is increasing open and competitive, primarily the region of Asean, through the implementation of market control that is a prerequisite in terms of increasing MSMEs competitiveness.

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