

Small Financial Credit Banking for SMEs

(Small and medium enterprises)

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Abstract—This research aims to explore how the distribution of small financial credit scheme for SMEs. Qualitative descriptive approach-based government official reports was used to examine the distribution of small financial credit scheme for SMEs in Indonesia. The findings show that most SMEs used more than 70% of credit for initial capital and the rest were used for investment which may lead to high non-performing loan (NPL).

Keywords—SMSs; NPL; small financial credit

I. INTRODUCTION

Small and Medium Enterprises (SMEs) have an important role in economic development. They absorb a big number of workforce, need a small number of investment, and more flexible with unpredictable environment and changing in market.

SMEs have a strategic role in the structure of the Indonesia's economy with 99 percent of its total business and its ability to absorb more than 100 million workers, and contribute 59 per cent of GDP [1]. SMEs have also more reliable from the economic crisis. It is expected that SMEs to be main driver of poverty reduction in the country. In addition, SMEs are one of the main pillars of the national economy.

With current government regulation, the development of SMEs is increasingly flexible. The current regulation provides more opportunities for SMEs to access financial support from formal banks, non-banks and other non-financial institutions. The regulation has stated that those financial institution must provide a minimum of 20 percent of their loan for SMEs. However, the government efforts to strengthen the role of SMEs have several barriers in terms of production and processing, marketing, human resources, design of technology, capital and business climate [2]. Policies have also been implemented to increase the capacity, capability and protection of SMEs such as business backup, funding and development. But, the issues have not been fully addressed.

This research aims to explore how is the growth of bank credit in SMEs during the 2012-2016 period? What is the ratio of bank credit to SMEs to total loans during the 2012-2016 period? How is the performance of non-performing loans (NPLs) in banking credit for SMEs during the 2012-2016 period?

II. METHODS

Secondary data analysis were based on administrative and statistic data from Bank Indonesia, the Financial Services Authority and the Central Statistics Agency was used. Data were analysed through the following process. Data collection, data selection, data presentation, and conclusion.

III. RESULTS AND DISCUSSION

A. Results

MSMEs in Indonesia have a strategic role in the structure of the economy. A total of 52,764,750 business units were recorded in 2009 and continued to develop to reach a share of 57,895,721 business units in 2013. It is estimated that from 2014-2016 the number of MSMEs is more than 57,900,000 units and in 2017 the number of MSMEs is estimated to grow to more than 59,000,000 units [3].

With a total of 99% of the total business group, it is able to absorb more than 100 million people (97%), and contribute 59% to GDP (in 2012) and this contribution continues to increase in 2012, reaching 61% consisting of micro enterprises 30.3 percent, small businesses 12.8 percent, and medium enterprises 14.5 percent.

SMEs financial credit has substantially increase during the 2012-2016. According to data from Bank Indonesia, each year loans to SMEs are experiencing growth. Even though in 2015, around 60% -70% of all SME sectors did not yet have access to finance through formal banks.

With the support provided by Bank Indonesia, it requires banks to allocate credit or financing to MSMEs starting in 2015 at 5%, and increase in 2016 to 10%, and in 2017 by 15% and it is expected that in 2018 it will be 20% on the basis of Bank Indonesia Regulation (PBI) No.17 / 12 / PBI / 2015 dated June 25, 2015, there was a change to Bank Indonesia Regulation No. 14/22 / PBI / 2012, and also PBI No.14 / 22 / PBI / 2012 regarding the provision of credit or financing by Commercial Banks and technical assistance in the context of developing Micro, Small and Medium Enterprises which are accompanied by financial support, which in PBI is required to allocate financing loans to SMEs, starting from 5% in 2015 to reaching 20% at the end of 2018.

The total credit composition in the business sector from 2012 to 2016 continued to increase as seen from the total loan amounting to IDR 2,778,957 billion in 2012, as much as 20% (IDR 522,226 billion) was disbursed to SMEs and increased to 2016, which was as much as IDR 900,390 billion of the total IDR 4,505,783 billion is the portion of this group. The largest portion is occupied by medium business groups, which is around 50%, while for the second portion is occupied by small business groups, namely 30%, of course the remaining 20% are micro business groups. However, the distribution of micro business groups has decreased every year despite the fact that the number of micro businesses is far greater than 98% among the other two groups. Of course this is a weakness in SME lending where it is still inaccurate and the distribution is not evenly distributed. Banks that contribute to lending are dominated by state-owned banks while foreign banks have a smaller portion of total loans channeled to SMEs.

This study also calcifies SME loan disbursement based on type of business activities in this case, meaning that credit distribution is based on several types such as agriculture, animal husbandry, and trade. For this classification, the lending of SMEs was the largest distributed to the trade sector. Then the SME loan distribution by region, SME loans absorbed by SMEs were spread in 34 provinces with the largest allocation being in DKI Jakarta, West Java, East Java, Central Java, North Sumatra and Banten for low absorption namely North Maluku, West Sulawesi, Maluku, Gorontalo and Bangka Belitung. For the classification of SMEs based on the type of use of more than 70% of loans given to SMEs are used for working capital, and the remaining 30% for investment will also have an effect on NPL if NPL is used for working capital of 2.5%, much higher for NPL. Type of investment credit, which is around 0.8%. If the micro group business has the lowest NPL, which is below 0.5% while the other two groups have a 1.3% NPL.

B. Discussion

SMEs face two main problems in the financial aspect both when initial capital mobilization or access to long-term working and financial capital for investment is indispensable for long-term output growth. If the financing and guarantee of SMEs is in accordance with the stipulated legislation and there has been involvement from the Government through the law on ease of access to credit and from the world already regarding financing carried out by Financial Service Institutions such as Banks, Financing through programs from SOEs. The results of this study are also in accordance with the objectives of the SMEs funding policy, namely expanding the funding source of SMEs, Increasing funding institutions so as to facilitate public access, as well as helping SMEs to obtain financing and other financial services / products provided by banks and other financial institutions. However, for the purpose of obtaining funding appropriately this has not been carried out because there are still uneven distribution in accordance with the findings of the results of this study which were among the three business groups. The micro business group has a much larger number than the other two groups, but in the distribution of credit received by micro-businesses each year it decreases not equally between the two other business groups.

More than 70% of loans given to MSMEs are used for working capital, and the rest (30%) is used for investment. This condition indicates that most MSMEs still have obstacles in fulfilling their business operational funds, as Kashmir identified that working capital is used for the need to increase production in the company's operations [4]. The provision of loans intended to increase working capital is actually less profitable for both the borrower and the lender. Because usually working capital loans are short-term loans, and because fulfillment is done to cover operational costs, the margin will be very small when compared to investment intimacy. This can be seen from the NPL for the type of credit used as working capital of 2.5%, much higher than the NPL value of credit for investment, which is around 0.8%. This is one indicator that the MSME group still needs assistance and technical guidance in carrying out its business. Credit distribution through SOEs can be intensified, because they already have a good market network and this group has a lot of resources [5].

According to Addotei even though there are currently institutions who provide services and guidance regarding credit management or loans, but there are still many SMEs that experience difficulties in managing loans [6]. This is due to the high cost training costs and lack of awareness of SMEs managers will the importance of training.

The strategy for developing MSME financing will be effective at least accompanied by strategies that include strengthening the business climate and investment climate conducive, increasing entrepreneurial capacity and business activities, strengthening the financial sector, especially banks, in matters of financing, development supporting tools for improving financing services, and increasing cooperative services and the role of Microfinance Institutions [7].

IV. CONCLUSION

This study concludes that the performance of bank lending to SMEs has increased substantially with established new government legislation, as well as the support of various parties as well as increasingly increasing bank credit growth. Most of SMEs used more than 70% of credit for initial capital and the rest were used for investment which may lead to high non-performing loan (NPL).

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