

Influence of Microcredit and Business Management Training to Micro and Small Business Performance in West Java, Indonesia

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Abstract— Micro, Small, and Medium Enterprises (MSMEs) are the backbone of national economy. However, there are still many problems faced by SMEs among other are the availability of capital, the difficulties to access financial institution as a lender, low understanding in business management, limited market access, and lack of science and technology mastery. This study aims to analyze the effectiveness of microcredit financing provided by banks and business management training on MSMEs performance. The method used in this research is mixed method using Sequential Explanatory Analysis. Quantitative data was analyzed with Partial Least Square (PLS) and to convert ordinal data into interval data this study used Rasch Model. The subject of this study is the customers who are getting microcredit loan from Jabar-Banten Bank (BJB) located in Regional 1. The results show that microcredit financing and business management training partially have a positive and significant impact on the performance of MSMEs with path coefficients 8.352, which is bigger than 1.96 (t-stat). It means that good quality of microcredit and the good quality of training on business management would result in a better business performance for MSMEs.

Keywords—MSME; Microcredit; Business Management; Training

I. INTRODUCTION

The society have basic rights such as the fulfillment of food, health, education, employment, housing, clean water, land, natural resources and environment, protection from threat or violence and the right to participate in social life politics, both for women and men [1]. If the basic rights of society are not met, there will be poverty issues. The total poverty rate in West Java [2] has increased slightly from 4168.11 in 2016 to 4168.44 in 2017.

To reduce the poverty rate, the West Java government launched a program that aimed to create 100 thousand new entrepreneurs (MSMEs) in 2011. This is done because MSMEs is considered a way that can be used to strengthen the economy in the community [3]

The growth of MSMEs as seen from its performance makes it a source of employment opportunities by absorbing many workers, thus reducing poverty. The contribution of MSMEs to the Indonesian economy is no doubt. When the economic crisis hit the world and automatically worsened the

economic conditions in Indonesia from 1997 to 1998, only MSMEs sector was able to remain relatively stable.

Data from Statistics Central Bureau showed the economic crisis did not lessened the number of MSMEs, on the contrary it increased its growth and was even able to absorb 85 million to 107 million workers until 2012. The remaining 0.01% or 4968 units were large-scale business [4]. This indicated that MSMEs in Indonesia were able to fulfill the basic needs of people for food, health, education, work, housing, clean water. These six needs were in line with the strategy of IMM (Integrated Microfinance Management) in which $IMM = f(2 + 3 + 5)$, where 2 is the main goal of IMM that is reducing poverty and empowerment; 3 is the principles of quality, output and outcomes; and 5 is the basic service to the society which includes inclusive financial, health, education, communication and social culture [5].

MSMEs are also referred to as the backbone of national economy because the business contribute about 59.08% of GDP or about IDR 4869.57 trillion, with a growth rate of 6.4% per year. In addition, MSMEs contributed 14.06% to export volume with transaction value IDR 166.63 Trillion of total national exports, and support the establishment of Gross Fixed Capital (PMTB) nationwide of 52.33% or equivalent to IDR 830.90 trillion with the level of energy employing about 97% of the total national workforce and contributing 57% to the gross domestic product (GDP) [6]. Financial institutions including banks are the institutions that are able to provide access to the public financial inclusion. This is evident from the support given by Bank Indonesia. In its publication it stated that the publication of statistics on SME loans were based on the definition and criteria of business under Law No. 20 of 2008 on SMEs and was also based on the limitation of ceiling, namely: (1) Microcredit with loan ceiling up to IDR 50 million, (2) Small credit with a loan ceiling above IDR 50 million to IDR 500 million, and (3) Medium credit with loan ceiling above IDR 500 million to IDR 5 billion.

As a regional bank, BJB has a vision to become one of the ten largest banks with high performance in Indonesia and its mission is to become an economic driver West Java and as a source of the province revenue.

MSME credit types offered by BJB are Kredit Cinta Rakyat (KCR) with ceiling starting from IDR 5 million up to a maximum of IDR 50 million with an effective interest rate of

8.3% per annum, Kredit Usaha Rakyat (KUR) with ceiling ranging from IDR 5 million up to a maximum of IDR 500 million with an effective interest rate of 7% per annum and Kred-it Mikro Usaha (KMU) with ceiling ranging from IDR 5 million up to a maximum of IDR 500 million and interest rate at 1% per month.

In distributing MSMEs credit, banks also have classic problem; problem loans by debtors resulting in Non-Performing Loans (NPLs). According to [7] a problem credit occurs when debtors refuse to settle their obligations in accordance with the agreement, whether in terms of time limit, interest or the loan itself. The grouping of collectability consists of current credit (collectability 1), special attention (collectability 2), substandard (collectability 3), doubtful (collectability 4) and loss (collectability 5).

Other problems faced lies in the disbursement of micro and small enterprise credit, which are basically related to the profiles of MSMEs debtors that are mostly bankable (not meeting the technical banking requirements). The non-bankable debtors of MSME make the feasibility aspects of micro and small enterprise lender neglected. Unable to meet the technical requirements of banks, prospective borrowers of micro and small businesses lose the opportunity to obtain credit facilities from banks [8].

The purpose of this research is to know the effect of microcredit financing on the performance of SMEs, the influence of business management training on the performance of SMEs and whether both have simultaneous effect on the performance of SMEs (research on BJB).

II. METHOD

In this study, the authors used mix method model, which combined quantitative and qualitative methods, so that the data obtained were more comprehensive, valid, reliable and objective. The study used Sequential Explanatory Analysis.

The population of this research was 4691. They were debtors in Bank BJB Regional 1 who used microloan product with amount of credit ≤ IDR 50 million. Based on Slovin formula, the sample was 98 and was rounded up to 100 people.

Data was analyzed using quantitative method in the first stage continued with qualitative analysis in the second stage. After the data was collected, measurements using Partial Least Square (PLS) was conducted to test the hypothesis using p values with alpha 5%.

The hypothesis to be tested are:

1. Microcredit has a positive effect on the performance of small micro-enterprises.
2. Provision of business management training has a positive effect on the performance of small micro-enterprises.
3. Microcredit and training on business management simultaneously have a positive effect on the performance of small micro-enterprises.

III. RESULTS AND DISCUSSION

The direct effect of microcredit on performance is $(0.228) \times 100 = 22.8\%$. This number showed that without regard to other variables, microcredit gave 22.8% influence on MSMEs

performance. The indirect effect of microcredit on performance in this study was not found.

The direct influence of business management training on performance is $(0.517) \times 100 = 51.7\%$. It showed that business management training gave 51.7% influence on MSMEs performance. The influence of business management training indirectly on MSMEs performance in this research is not found.

The hypothesis above used t-statistic value presented in the picture below, t-statistic for variables X1 and X2 to Y was obtained by $2349 + 6003 = 8352$. The value was greater than 1.96, so it can be concluded that $H_a > 0$, which means that microcredit and business management training was proven to simultaneously affect the performance of SMEs. The PLS calculations by performing a bootstrapping resulted in the following path analysis.

From the result of statistical test it could be seen that the microcredit offered by Bank BJB and used by the debtor was included in either category. This showed that credit products up to IDR 50 million remained in demand by the MSMEs. However, the debtor must maintain the quality of the credit taken to retain trust from the banks.

The trust given by the bank is based on character, capacity, capital, guarantee and economic condition.

This study also revealed that microcredit had a direct influence on the performance of MSMEs as much as 22.8%. This is in accordance with a research by [9] which found that the provision of microcredit affects the income of SMEs.

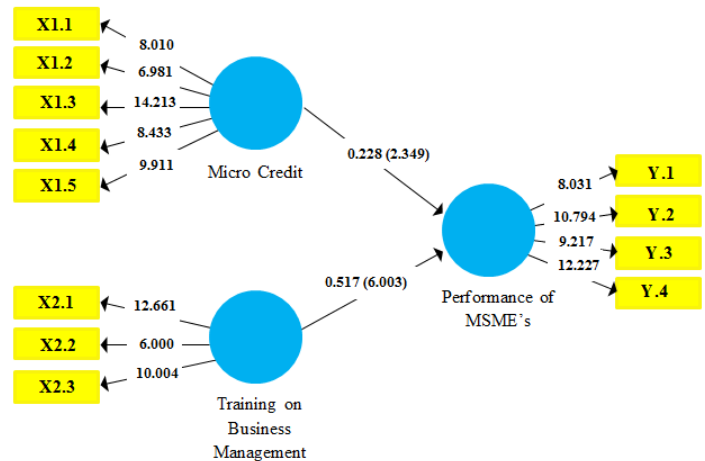


Figure. 1. The result of PLS model.

Every business person has a financial record even though the recording is not done every day in the book. Financial records will facilitate them in sorting the business finances according to their needs.

As for the second variable, business management training, it was discovered that most respondents felt that training given by Bank BJB was a unique service, which was not available in other bank facilities. In fact, the training was meant to build the relationship among business people in order to expand the marketing network. Based on the statistics measurement, the effect of this second variable on the performance of MSMEs was as much as 26.7%. This is also in line with previous

research conducted by [10] which stated that there is a positive and significant correlation between education and training variables with the improvement of MSMEs business.

The variable of MSMEs performance is comprised of 4 sub-variables: financial perspective, customer perspective, internal business process perspective and growth and development perspective. The statistical calculation showed that the two dependent variables, microcredit and business management training, effected the performance of MSMEs as much as 8.352 or 31.9%.

Based on the results of field observations and interviews, respondents had the ability to pay their obligations including local contributions, arisan (a unique form of rotating savings in Indonesia), and other obligations including vehicle installments and loan installments to Bank BJB. However, sometimes they forgot to pay their short-term liabilities. Some of them found it helpful to get a reminder of the credit due date through on call communication received two days before the due date. In the financial perspective, the respondents agreed that the interest rate of the bank was not a problem. The most important for the business people was a fast process and easy requirements in getting loan and the presence of more services than they expected, such as being invited to the training and involved in the exhibition or bazaar. Some respondents had been invited to attend an exhibition organized by Bank BJB. Direct sales activities during the exhibition was really useful to increase the respondents' income, moreover, they were also not required to pay for booth rent and lodging was provided for participants from out of town. For some products that are in demand by the market such as coffee drinks and batik, the exhibition gave them opportunity to expand their marketing network.

Based on observations in the field, it was found that respondents' business place were visited by customers from time-to-time. According to the respondents who sold food, their places were usually crowded before Lebaran (the popular name for Eid al-Fitr in Indonesia) or during public holidays. Respondents also had understanding towards the business process, since most of them had more than 2 year's experiences in their field. They were also trying to expand the marketing network and make sales online through some existing market places.

IV. CONCLUSION

From this research we can conclude that micro-credit had an enormous effect on the performance of MSMEs. If the quality of credit is good, then the performance of MSMEs will also be good. This research also proved that business management training had a significant influence on MSMEs performance, which meant that business management training was required by Bank BJB's debtors in order to improve the performance of its business. Overall, the simultaneous effect of microcredit and business management training on the performance of SMEs was 31.9%, while the remaining 68.1% came from other variables that were not measured in this study.

The results of this study can be used to determine the strategy of giving microcredit to the SMEs, especially in determining the products. Business management training remains as a unique package offered for micro products. Training pattern is suggested to be grouped based on debtor business scale or per product accessed, for example, debtors who apply for credit below IDR 50 million cannot be put together with debtor who apply for credit above IDR 50 million. Training providers and product marketers can collaborate in every activity so that the credit disbursement process accelerates.

The result of this study can also be taken into consideration by the government when making policy on microcredit financing especially in determining credit interest and the amount of ceiling, so that it can be easily accessed by business actors. It is also expected to create more synergy between government and non-government parties in order to help the growth of MSMEs so as to sustain the regional economy.

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