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 fin-cial 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 I. 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 perfor-mance makes it a source of employment opportun-i-ty by absorbing many workers, thus reducing pov-erty. 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 MSME sector was able to remain relatively stable.

Data from Statistics Central Bureau showed the economic crisis did not lessen 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 in-dicated that MSMEs in Indonesia were able to fill-ful the basic needs of people for food, health, educa-tion, 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 fi-nancial, 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 domes- tic 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 eco-nomic driver West Java and as a source of the prov-ince 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 train-ing 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 mi-croloan product with amount of credit ≤ IDR 50 mil-lion. 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 manage-ment 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) 2 × 100 = 5.2%. This number showed that without regard to other variables, microcredit gave 5.2% influence on MSMEs performance. The indi-rect effect of microcredit on performance in this study was not found.

The direct influence of business management training on performance is (0.517) 2 × 100 = 26.7%. It showed that business management training gave 26.7% influence on MSMEs performance. The influ-ence of business management training indirectly on MSMES performance is not found.

The hypothesis above used t-statistic value pre-sented 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 Ha > 0, which means that micro-credit 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 di-rect influence on the performance of MSMEs as much as 5.2%. This is in accordance with a research by [9] which found that the provision of microcredit affects the income of SMEs.
The results of this study can be used to deter-mine the strategy of giving microcredit to the SMEs, ex-pec-tially in determining the products. Business man-agement training remains as a unique package of-fered for micro products. Training pattern is sug-gested 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 mar-keters 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 poli-cy 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 govern-ment and non-government parties in order to help the growth of MSMEs so as to sustain the regional economy.

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