

# Analysis of People's Business Credit Distribution for MSMEs Based on Non-Performing Loans, the Number of Debtors, and MSME's Revenue Growth

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This research discusses the distribution of People's Business Credit or MSME credit, which is influenced by NPLs, the number of debtors, and MSME's revenue growth. The main research issue focuses on KUR's use for MSME expansion, which will pay attention to the amount of NPLs as part of credit risk, the number of debtors who use KUR, and the amount of MSME revenue to finance KUR payments. This research becomes a benchmark for making bankable software to be designed. The study uses data of MSME credit from 1989 to 2019, with adjustment of data from 1989 to 2008 due to change of regulation. The findings show that revenue growth has a negative effect on KUR distribution; this is due to the fact that successful MSMEs will borrow using the investment credit scheme instead of continuing to use KUR. Meanwhile, NPLs and the number of debtors does not affect the distribution of KUR. The results of this study are used as the basis for determining the logarithm of bankable software calculations. The beta version of this software is complete but requires further revision.

**Keywords:** *Non-performing Loans, credit Risk, Debtors, Revenue, SME*

## 1. Introduction

The development of micro, small, and medium enterprises (MSMEs) is critical for every country's economic growth, especially developing countries. According to the World Bank, the

important role contributed by MSMEs can be shown from job creation, which is absorbing 50% of the workforce worldwide. In addition, the World Bank also states that MSMEs contribute, on average, 40% of GDP in developing countries. However, most MSMEs have stunted growth due to financial or funding constraints. About 75% - 90% of MSMEs in ASEAN countries receive funding from internal savings, retained earnings and the informal sector. The banking sector's low contribution is due to the limited types of financial products, most of which are in the form of working capital loans and the minimum amount of investment credit provided.

In Indonesia, funding for MSMEs is supported by the government through the People's Business Credit (in Indonesian language called Kredit Usaha Rakyat - KUR) program launched on November 5, 2007. KUR's implementation is supported by partnerships with state-owned banks, regional development banks (BPD), and private-owned commercial banks. The government created the KUR program with the hope of accelerating the development of economic activity and of poverty alleviation in Indonesia. Based on data on the realisation of KUR distribution in 2020, it is shown that the trade and agriculture, hunting, and forestry sectors are the sectors that receive the largest KUR funding. In April 2020, the realisation of KUR distribution reaches 32.16% of the KUR target, amounting to IDR 190 trillion. Even so, the realisation of KUR distribution data in Indonesia, as of April 2020, still shows a relatively low amount compared to the total ceiling provided by banks and the government. Data on accumulated outstanding credit since 2015 shows IDR 180 trillion or only 33.12% of the total ceiling provided. In addition, the accumulated data on KUR debtors since 2015 shows 20,495,536 business units. This number is relatively small, namely 31.92%, compared to the 2018 data on the number of MSMEs in Indonesia, which reached 64,199,606 business units.

The relatively small number of realised credit and debtors could be caused by the KUR program's weaknesses, including slow distribution, a lack of information regarding the need for collaterals, and a lack of accurate mapping of the industry's prospects to be financed. This reason is in line with the results of a survey conducted by Bank Indonesia on the 2015 MSME Business Profile that revealed 60% - 70% of MSMEs still do not get access to bank financing due to geographic barriers to administrative constraints of MSME in financial management.

The results of Du et al. (2017) research on the impact of bank competition and government intervention on financing decisions through debt by MSMEs show that in areas with high government intervention, MSMEs are more interested in accessing bank loans than non-MSMEs. This proves that government intervention is critical for financing MSMEs and their future development. This is also compliant with Fan et al. (2012) who state that the intervention from the government can be in the form of subsidies to reduce potential defaults, encourage the use of long-term loans to stimulate the economy, and support enterprises to obtain loans through their influence and authority on bank credit decisions.

The importance of KUR contribution for the development of MSMEs, increasing job opportunities, and economic development makes developing a more effective KUR program interesting to study. The development of a funding program was first carried out at the end of the 20th century by Japan and Korea through a credit guarantee program that guarantees 100% credit that has met the qualifications. Research conducted by Kang, Heshmati, and Choi (2008) concludes that the implementation of a credit guarantee program in Korea leads to a positive impact on MSMEs' development. The research also shows that every 1% increase in credit provision through the credit guarantee program increases sales growth by 0.26% and worker productivity by 0.21%. This can be used as evidence that the growth in KUR distribution for MSMEs in Indonesia can also improve MSMEs' performance.

Even though it has a good impact on the performance and development of MSMEs, lending still needs to be properly managed to minimise risks both for the financial institutions and MSMEs themselves. Providing too much funding for MSMEs can potentially increase the risk of default due to high loan interest and principal if not accompanied by good MSME performance. This is in accordance with the trade-off-theory (Modigliani and Miller, 1958), which states that the benefits of using a debt/tax shield will decrease as debt increases and reaches the point of cost of financial distress. Hence, the management of credit distribution for MSMEs has the potential to increase the business risk of MSMEs themselves if they are not accompanied by proper supervision and credit extension qualifications. This also proves that the development of a credit rating and distribution system needs to be carried out in order to optimise MSMEs' benefits in getting credit while still minimising business risks.

In order to increase MSME funding, each country needs first to identify what problems may hamper the distribution of funding. The Beck et al. (2010) study on credit programs in 46 countries in 5 continents shows that most of these credit programs' problems stem from risk management. This is because an effective and efficient risk management process will be able to improve and accelerate the process of funding distribution without a significant increase in risk. In addition, Rand (2007) research shows that the barriers to providing credit for MSMEs in Vietnam are caused by a bureaucratic process that charges high costs and takes a long time. Research conducted by Bennett et al. (2005) on the implementation of credit programs in Chile, Egypt, India, and Poland reveals several macro and micro factors that can increase MSME funding effectiveness. Macro factors affecting the effectiveness of MSME funding include an open and competitive banking industry, a growing business sector, government policies that do not hinder market initiatives, sufficient liquidity and stable interest, a business framework that can support all business forms, support from competent agencies, and credit bureaus that provide efficient credit information. Meanwhile, micro factors affecting the effectiveness of MSME funding include increased competition among creditors, approaches that target permanent development in the financial sector, understanding market forces, sustainable focus on clients, long-term approaches and visions, balanced cooperation between credit schemes, donors and creditors, business ownership by creditors, development of appropriate credit

technology, and the presence of influential business winners at the early stages of credit program development.

Based on the studies on MSME funding and its development, it can be concluded that government intervention is required to increase the distribution of MSME credit and improve their performance while maintaining good risk management. This research seeks to develop software that can help the government manage the KUR program well and assist MSMEs to increase their financial capacity and obtain loans. This study aims to investigate the KUR indicator, and test the KUR indicator that leads to increased performance and also the business risk of MSMEs.

## **2. Literature Review**

### **2.1. Strengths and Weaknesses of MSMEs**

MSMEs have several strengths and weaknesses. In general, an MSME's strengths include a close relationship with customers, employees, and suppliers and the ability to meet customer needs through the special presentation of goods, quality, and services. Besides, the small percentage of direct costs and non-revenue production activities mean several activities can be carried out more efficiently, including as sources of materials, processes, and ideas. MSMEs can be a controlling factor for large-size companies through the presentation of business innovations and new services that encourage competition (in the form of prices, machines, and efficiency).

Indeed, a good understanding of its environment makes MSME owners and managers able to apply specific strategies to attract community interest and MSME owners are required to have more responsibility in managing their business and change production immediately to keep up with changes in consumer wants.

Whereas, an MSME's weaknesses are that they do not or rarely have written planning; are not oriented towards the future; do not have relevant education; do not carry out regular bookkeeping and profit-loss planning or timely and up-to-date market analysis; have a lack of specialisation or diversification of plans; rarely conduct renewal or innovation; no or rare cadres; are quickly satisfied with existing planning; are family centric, i.e. business owners do not want to delegate rights and obligations to other people who are not family; do not believe in modern science; and have a lack of knowledge of applicable laws and existing regulations.

MSMEs must also be able to balance the options of producing too few goods, due to pursuing the advantages of product specialisation, with diversifying hastily; thus, it is necessary to find a balance between the benefits of diversification and product specialisation.

## 2.2. The Development of MSMEs in East Java

After several years of economic crisis and recovery, several studies disclose that the Indonesian economy does not rely solely on the role of large businesses and that MSMEs are shown to have relatively better resilience than businesses on a larger scale. It is not surprising that during both the crisis period and the current economic recovery period in Indonesia, MSMEs contribute a very strategic and critical role in various aspects. The contribution includes first, MSMEs cover quite a large number of industries as they can be found in every sector of the economy, second, MSMEs have great potential in creating more job opportunities when compared to the same investment in a larger scale business, third, the contribution of MSMEs to GDP is quite significant, and fourth, the contribution of MSMEs to the country's foreign exchange through a relatively stable export value.

In 2015, the number of MSMEs in East Java was 4.2 million. About 85% of them were micro-businesses, 10% were small-businesses, 3% were medium-enterprises, and 2% were large-businesses ([www.jatimprov.go.id](http://www.jatimprov.go.id)). From this data, it can be seen that micro businesses dominate MSMEs' activities. Thus, it is important to conduct training and empowerment for micro-businesses.

In Indonesia, MSMEs is one of the sectors that significantly contributes to employment and the economy (GDP). Whereas in East Java itself, the MSME sector also has a significant contribution to improving the welfare of the people of East Java.

The growth rate of MSMEs in 2016 was 10,005 units from 2015 to the first semester of 2016 by absorbing a workforce of 34,966 people and a turnover of IDR 88,913 million in the first semester of 2016. While the contribution of the East Java MSME sector to East Java's GRDP reached 53.04 percent. Of the total GRDP of East Java in 2009, amounting to IDR 692 trillion, MSMEs' contribution reached approximately IDR 367.03 trillion. Meanwhile, the contribution of MSMEs to the East Java economy, as measured by its GRDP was 53.49% of East Java's GRDP.

Apart from being a sector that contributes significantly to the economy, the MSME sector also has a relatively high resilience to economic crises. This condition is evident in the MSME sector's existence when the economic crisis hit Indonesia in 1997/1998. At that time, almost all sectors of Indonesia's economy experienced a downturn, and many companies laid off their employees and even closed their companies. However, it turns out that the number of MSMEs has actually increased after the crisis.

The MSME sector's high resilience is partly because the output produced by this sector is mostly consumer goods and services with low-income elasticity. In addition, the increase in the number of MSMEs is the result of many companies laying off their employees during the crisis, and many of the laid-off employees became entrepreneurs and set up small and medium

scale businesses.

Meanwhile, East Java's welfare indicators are reflected in the unemployment and poverty rates. The Open Unemployment Rate (TPT) is 0.55%, up to 5.87%. Throughout March 2015 - March 2016, East Java's poverty condition increased due to a decrease in the number of deprived people. A decrease of 1.83% led to a reduction in the number of deprived people in East Java (rural + city) by 628.69 thousand people.

### **2.3. Bank Indonesia Credit Policy for Micro, Small, and Medium Enterprises**

The role of Bank Indonesia credit policy for MSMEs continues to be improved in empowering MSMEs through efforts and policies that encourage banks to finance micro, small, and medium enterprises. In this regard, there are three strategic pillars adopted by Bank Indonesia, namely banking credit policy, provision of technical assistance, and institutional development and strengthening.

Related to banking credit policy, Bank Indonesia encourages banks to distribute People's Business Credit (KUR), include it in business plans, and report it in published financial reports so that the public can judge which banks are in favour of MSME development. In order to further increase the realisation of MSME credit related to the business plan, Bank Indonesia also continues to encourage more partnerships (linkage programs) between Commercial Banks and Rural Banks (BPRs). This aims to increase credit distribution to micro businesses, support the establishment of special service units for micro, small, and medium enterprises (MSMEs Center) in branch offices, and adjust banking regulations in order to encourage the distribution of credit for MSMEs while still observing the prudential principles and prevailing laws and regulations. Robina-Ramirez and Human (2020) discussed MSME relation to macro factor and entrepreneurial networking and argued that domestic environments like the role of the central bank is important for MSME's success.

### **2.4. Constraints on KUR Distribution**

In its implementation, various constraints arose on the distribution of KUR. Debtor Information Systems (SID), as evidenced by Bank Indonesia checking results, makes it difficult for banks to get customers. On the other hand, customers who have received credits (consumption, investment, and working capital) become a barrier to KUR access even though they really need business capital.

The definition of a new debtor has blocked the opportunity for customers who are receiving the credit from banking institutions or government credit programs to apply for KUR. Likewise, the provision on the amount of additional collateral makes channelling banks hesitant to distribute KUR. This also impacts the extension, distribution, and restructuring of KUR, which should be changed or extended to provide flexibility to not make it difficult for MSMEs

and channel'ing banks.

Channelling banks need to be added, considering the current number is perceived to be very limited if KUR is intended to be more populist, especially in reaching customers in the agriculture and fisheries sectors. Another constraint is high-interest rates that need to be reduced. The coverage of KUR debtors needs to be expanded, not only limited to provisions of productive, feasible, and not a bankable business. The last constraint is the KUR distribution program's linkage program that does not utilise microfinance institutions optimally.

Microfinance is a financial service in raising funds and providing small loans and other related financial services. The microfinance business is characterised by a small number of deposits and loans without collateral. The benefits of this microfinance attract many MSMEs to use it to cover their lack of capital. MSMEs use more capital from cooperatives, venture capital, non-bank institutions, families, individuals, and other informal funding. This is due to the difficulty of fulfilling complicated and bureaucratic banking requirements. Włodarczyk et al. (2018) found that SME's have more difficulties to access credit availability rather than larger firms.

## 2.5. Hypothesis Development

Although KUR can positively impact the development of MSMEs, too many loans can increase the risk for banks and MSMEs themselves if not appropriately managed. Lending to MSMEs must be adjusted according to the MSMEs' ability to pay off principal and loan interest in the future in order to be able to take full advantage of the loans they receive. The optimal point of using debt from a company or MSMEs is also explained by the trade-off-theory (Modigliani and Miller, 1958), which pinpoints the benefits that using debt will decrease when it reaches the point of cost of financial distress. This leads to excessive use of debt, which can increase risk or even result in losses for the company itself.

Basically, the government set a KUR program in Indonesia to ease MSMEs ability to obtain funding and develop their businesses. This government's expectation is in line with Du et al. results in Chinese MSMEs that reveal in areas with high government intervention, MSMEs are more interested in accessing bank loans than non-MSMEs. Nonetheless, until now, it has been noted that there are still a lot of KUR loan ceiling funds that have not been adequately absorbed by MSMEs; thus, it is necessary to study whether the results of this research are relevant to conditions in Indonesia. Based on these reasons, a hypothesis can be formed regarding the amount of KUR and non-performing loans in KUR distribution. The high NPL is due to the high growth of KUR distribution, thus encouraging the MSMEs to expand their business that may increase the risk of the MSME's business.

The increased business risk will increase bad credit in KUR distribution. The higher the NPLs of MSMEs, the greater the KUR distribution, because the government will enhance MSMEs' expansion to pursue business opportunities. This is like a circular cycle that ultimately

increases the NPL of MSMEs. The study also reveals that the existence of a Bank Indonesia regulation limiting NPLs to below 5% makes the NPL of the credit not having a significant effect on KUR distribution. NPLs can have a significant positive effect on KUR distribution because banks' bad credit in distributing KUR is partly borne by the government through insurance companies so that a high percentage of bank NPLs will not reduce the amount of KUR.

H1: The higher the NPL of MSMEs, the greater the KUR distribution

Apart from being expected to increase funding for MSMEs, the government also hopes that with this funding, MSMEs will be able to develop more quickly and consistently to contribute more to the country's economy. This government's expectation is also in line with Kang, Heshmati and Choi (2008) on implementing a credit guarantee program in Korea that can influence sales growth of 0.26% and increase employee work productivity by 0.21%. This study argues that the smaller number of debtors in Indonesia is due to MSMEs experiencing financial difficulties caused by the increased business risk (related to Hypothesis 1). The learning process in business will lead to either a failed or successful MSME.

H2: The higher the number of debtors, the higher the KUR that is distributed to successful MSMEs.

The distribution of KUR will increase MSME business expansion and encourage MSMEs to take more risks. This will increase financial distress, which causes financial difficulties. Financial distress may increase non-performing loans (NPLs) of MSMEs. If this continues, the revenue growth of MSMEs will be affected and is likely to decline. The government will again increase the distribution of KUR to encourage an increase in revenue growth of MSMEs. Thereby, Hypothesis 3 rests on the policy of increasing KUR due to the declining revenue growth of MSMEs.

H3: The lower the revenue growth of MSMEs, the higher the KUR distribution.

## **Research Method**

### **3.1. Data and Analysis Tools**

The data is analysed from reliable sources of Bank Indonesia, the Ministry of Trade, and the Ministry of Cooperatives and SMEs of the Republic of Indonesia. The research period is from 1989 to 2019. Data on MSMEs in Indonesia is relatively limited so that MSME studies tend to use qualitative methods. This study uses a quantitative approach, although with limited historical data. This research uses multiple regression quantitative methods with the dependent variable being the growth of the KUR distribution. The independent variables are NPLs, the number of debtors, and MSME's revenue growth. KUR has just been set after 2008; thereby, the 1989 to 2008 period uses below IDR 150 million credit of small business (according to

government regulations at that time). After conducting a quantitative analysis, this research then adds a qualitative approach by conducting in-depth interviews with several informants of MSME's entrepreneurs and banks or financial institutions managers.

### 3.2. Research variable: Dependent Variable

The dependent variable in this study is KUR distribution. KUR distribution is the realisation of People's Business Credit or debit balance distributed for MSMEs by banks appointed by the government for 1 year. KUR distribution is reflected by using a comparison to the total commercial bank credit and the amount of KUR distribution.

$$\text{KUR Distribution} = \text{KUR}_t / \text{Total bank credit} \quad (1)$$

$\text{KUR}_t$  = KUR realisation distributed by channeling banks in period t

Total Bank Credit = Total loans distributed by commercial banks in period t

### 3.3. Research variable: Independent Variable

The independent variables in this study include the number of KUR debtors, NPLs, and MSME's revenue growth. The variable number of KUR debtors refers to the number of debtors who received KUR distribution over one year. This variable is reflected by using a comparison to total commercial bank credit in Indonesia. This adjustment is made to overcome the difference in the KUR data units and obtain better regression processing results. Calculation of the ratio of the number of debtors:

$$\text{Number of KUR Debtors Ratio} = \text{Number of KUR Debtors} / \text{Total bank loan} \quad (2)$$

Number of KUR Debtors = Number of debtors who received KUR distribution in period t

Total Bank loan = Total loans distributed by commercial banks in period t

The variable NPL is the percentage of non-performing loans compared to the total KUR distributed. The NPL data is reflected in the cumulative NPL data from the overall KUR distribution each year obtained through KUR's publication by the Coordinating Ministry for Economic Affairs of the Republic of Indonesia. NPL is also used as a proxy for the risk borne by the bank because it is related to potential losses incurred by the bank due to a potentially bad credit facility. The NPL calculation is stated in the following formula:

$$\text{NPL} = \text{Nominal Cumulative NPL}_t / \text{Cumulative KUR Distribution}_t \quad (3)$$

Nominal Cumulative NPL<sub>t</sub> = Cumulative amount of NPL in period t

Cumulative KUR Distribution<sub>t</sub> = Total KUR distributed by commercial banks up to period t

The variable MSME's revenue growth data is reflected in the output data from micro and small industries. The selection of the micro and small industry categories as a proxy is carried out

because the micro and small industries' business scale is following the focus of KUR distribution, namely with a maximum ceiling limit of IDR 500 million. The calculation of revenue growth of MSMEs is stated in the following formula:

$$\text{MSME Revenue Growth} = (\text{OMSIt} / \text{OMSIt-1}) - 1 \quad (4)$$

OMSIt = Output of micro & small industry period t

OMSIt-1 = Output of micro & small industry period t-1

### 3.4. Statistical Methods

Multiple Linear Regression analysis is used to test the hypotheses that have been made and measure the effect of increasing KUR on MSMEs' financial capacity, expansion capabilities, and business risk in Indonesia. This research also tested for classical assumptions and normal distribution. The multiple regression analysis method is used because several variables are thought to be affected by the increase in KUR. The multiple linear regression equation to be tested is stated as follows:

$$\text{KUR} = \alpha_0 + \alpha_1 \text{KURDebtor} + \alpha_2 \text{NPL} + \alpha_3 \text{MSME} + \xi_i \quad (5)$$

KUR = KUR distribution

$\alpha$  = Constant

KURDebtor = Number of Debtors Ratio

NPL = Percentage of NPL

MSME = MSME Revenue Growth

## 4. Discussion and Implications

**Table 1. Descriptive Statistics**

Variable	N	Min	Max	Mean	St. Deviation
Proportion of KUR Distribution	31	0.01	0.04	0.0239	0.00479
NPL	31	0.00	0.01	0.0066	0.00308
Number of Debtors Ratio	31	0.76	1.15	0.9308	0.11749
Revenue Growth	31	-0.85	3.25	0.2837	0.99080

The descriptive statistics table shows that the largest standard deviation is revenue growth and number of debtors Ratio. The data movement for these two variables is also large and fluctuates in comparison to other variables. MSME's revenue growth experiences a decline to -0.85 and a relatively high increase of 3.25. This allows the standard deviation data for MSME's revenue growth to fluctuate widely. So far, the proportion of KUR distribution has been very low, only in 1% -4% of total lending in Indonesia. There may be other variables that affect KUR distribution, where these variables are not discussed in this study.

**Table 2. Research Results**

Independent Variable Variable	Proportion of KUR Distribution	
	Coefficient	Standard Error
Constant	0.006	0.007
NPL	0.265	0.274
Number of Debtor Ratio	0.403	0.007**
Revenue growth	-0.001	0.001
F test		3.314**
R <sup>2</sup>		18.8%

The variables that form the hypothesis are developed from Bank Indonesia data sources using a multiple regression scientific approach with the dependent variable being the growth of the KUR distribution. The independent variables are NPLs, the number of debtors, and MSME's revenue growth.

Hypothesis 1 narrates that the higher the NPLs of MSMEs, the higher the KUR distribution. The research results find that high NPLs lead to government policies to loosen the KUR distribution mechanism because the government's focus is to pursue the growth of MSMEs, but these results are not statistically significant. The high growth of MSMEs triggers MSME business expansion and, at the same time, increases business risk. Like a circular cycle, an increase in NPLs will encourage an increase in KUR distribution in order to pursue growth. This hypothesis implies that the distribution of KUR has an optimal scheme, namely the increase in NPLs can indicate that the KUR distributed is not on target, but still increases the growth of MSMEs. Another thing is that high NPLs will become a burden for banks so that on the one hand the government encourages the growth of MSMEs at the expense of the performance of the banking industry. This study does not directly test the impact of KUR growth on NPLs. Lee, Park, and Park (2020) findings support the result, that high growth of MSME will affect their source of capital, regardless of the high growth will lead to higher business risk and increase NPLs of MSMEs.

In-depth interviews with bank managers and financial institutions show that banks tend to finance MSMEs with high business growth, even though they also have high business risks. This is because the rate of return on investment for banks is able to increase profits. In addition, the guarantee of MSME assets is still able to cover losses due to NPLs.

Hypothesis 2 explains that the higher the number of debtors, the higher the KUR distributed to MSMEs. This study reveals that an increasing number of debtors will encourage an increase in the amount of KUR distributed. This shows that KUR is absorbed evenly among MSMEs in Indonesia. The evenly distributed KUR condition will encourage MSMEs to improve their performance. Concerning the proof of hypothesis 1 that NPL does not affect KUR's growth, this result is quite relevant to the findings of hypothesis 2 that show the equalisation of KUR

absorption is the main focus of MSME policy for the government. Then the growth of debtors will be in line with the growth of KUR. The evenly distributed KUR condition shows no gap in the MSME business process, but it does not show the success of MSMEs in utilising KUR. This study does not test the success of MSMEs in utilising KUR, but it can be seen implicitly that the NPL level does not affect KUR's growth.

Interviews with informants show that there are opportunities for banks and financial institutions to increase profit margins through more aggressive lending. The informant also said that NPLs do not affect banks in extending credit to MSMEs because of government policies to support the success of MSME businesses. Banks realise that government support for MSMEs will indirectly show government protection to the banking industry from financial difficulties in lending to MSMEs. Other information from an informant involved the business cycle was that in informant experience will affect the lending behaviour of the banking sector to MSME. Povolna (2019) showed that MSMEs have to relate their business regarding the business cycle, to provide sources of funding, especially through people's credit program. Research by Hendar, Mutamimah, and Kartika (2019) showed that MSME's performance was mainly subject to change in customer orientation and behaviour. Therefore, the research supports the argument that MSMEs should be aware of business cycle and customer orientation, which are included in the calculation of bankable software.

Hypothesis 3 explains that the lower the revenue growth of MSMEs, the higher the KUR distribution. This study's findings indicate that revenue growth has a negative coefficient on KUR growth, but it is not statistically significant. This study depicts that MSME revenue growth does not affect KUR growth. This is most likely due to KUR's growth being driven more by the motivation to equalise KUR absorption (Du, Bian and Gan, 2017). These findings are consistent with the results of the Hypothesis 1 test, which shows that NPLs are not a factor affecting KUR's growth.

The informant said that government regulations related to support for MSMEs were partially able to encourage credit distribution to MSMEs. The high absorption of MSME credit will encourage the government to increase the target of lending which will then become the policy of state banks. However, the high absorption of MSME credit tends to cause NPLs to rise in the future. Informants said that banks will usually prepare for an increase in NPLs in the future by tightening risk management and increasing capital for the stability of the capital adequacy ratio. Bure and Tengeh (2019) showed that internal control for SMEs and banks is an important factor to the sustainability of SME growth.

### **Conclusions and Implications**

The research findings show that the increasing number of KUR debtors will increase the distribution of KUR. This indicates that the amount of KUR per MSME distributed does not change per MSME but is constant during the research period. In addition, this study also



discloses that the increasing number of KUR debtors, which increases KUR distribution growth, makes the KUR absorption per MSME relatively small and limited. This study argues that MSMEs, which receive KUR, may not be utilising KUR for business expansion optimally, or if these MSMEs have been successful, they will apply for credit via banking. Financial Services Authority data, through Indonesian banking statistics, show an increase in credit between May 2019 and May 2020. Although this increase in credit is followed by an increase in NPLs from 2.61% to 3%.

This research's practical implication is that the success of MSMEs in using KUR will encourage an increase in MSME credit to banks. This will cause KUR only to be given to MSMEs that are applying for credit for the first time or MSMEs that are still not well developed. If KUR is distributed more to first-timers or MSMEs that are still not well developed, then the financial capacity of MSMEs will, on average, be low. For banks or the government, the main issue of MSMEs in KUR is related to the question of whether MSMEs are bankable or not.

This practical implication supports the creation of MSME bankable software that will help MSMEs analyse their financial capacity for their borrowing fund's process through KUR or investment credit in banks. The software will be a website-based, can be used by all MSMEs in their funding process, and is designed by prioritising the principle of ease of use and adapting to KUR issuance's general rules.

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## Biographical Note

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