

Small Medium Enterprises Development Program: Case Study for Micro-Small Business Lending Program in Indonesia

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Abstract: *Small Medium Enterprises (SMEs) Development Programs are becoming one of the development priorities of Indonesian Government. There were many SMEs development programs that have been implemented in Indonesia, one of them is a “Barokah” program in Bandung, Indonesia, which is a lending program to support SMEs. However the implementation of this program was not optimal due to some problems, namely: the legal basis was not appropriate, a high level of non-performing loans, and human resources were not competent, either from the administrator side or the recipient of credit side. Therefore, this research is made to examine the program as well as to recommend some solutions. Qualitative design with case study method, were chosen to do this study. Interview and group discuss with the stakeholders were made to obtain the data. Also data triangulation technique was applied to reduce bias. Character, implementation and real problems of the program were examined, and eventually it followed by several recommendations, such as the importance of legal basic suitability, sufficient competence of facilitators and debtors, plus appropriate strategic plan that support program to be more sustainable.*

Keywords: *Micro-Small Business Lending Program, SMEs Development Program.*

I. Introduction

Recently, there have been many studies and literatures that discussed about the development of Micro, Small, Medium scale businesses. It showed that the awareness of importance of Small Medium Enterprises (SMEs) sector has been increased. However, most common obstacle on this sector is poor finance accessibility to the formal Bank, since formal Bank prefers to lend the credit to big stable enterprises (Mahfudz, 2006; Berger et al., 2001). This condition exists because of big corporate customers generally bring more income to the bank and carry lesser risk as well (Turn Bull & Gibbs, 1997). Therefore, the governments of many countries are actively made efforts to established special agencies on lending program particularly to support SMEs. In Malaysia, there were several like this, named: MARA and CGC (Credit Guarantee Corporation). Only the programs were not too successful, due limited services, lack of funds, and overly complex of loan application procedures (Haron & Shanmugam, 1994). No wonder that many small entrepreneurial firms end up going into bankruptcy. It was said that the run-of-the-mill start-up company has about 50% chance of failing within four to six years of establishment. Most business ventures do not even get started, with around 27% of entrepreneurs abandoning efforts within a year of germination. Only 10% of the new businesses ever secure the capital and resources needed to survive and expand in the market (Shane 2008). However, despite many complicated problems in the SMEs lending sector, still this sector has an important role as economy generator and huge profit potential if it is treated properly. Cowan et al (2004) explained that even commercial banks were beginning to shift their consumer target to SMEs lending, since they were realized that if it is accompanied with appropriate strategies, it will generate more incomes than big corporate consumer. In Indonesia, there was one of micro to small business lending program implemented by local government in Bandung, named “Barokah” or “Blessing” in English. This program was started in 2001 with total asset turnover of Rp. 5,242,980,000.-, but then discontinued in 2009. This was due to several problems on that program, such as: total Non-Performing Loans which reached Rp. 1,795,976,567.-, the implementation of the legal basis was not appropriate, as well as less competent on both side creditor and debtor (LP3ANI, 2010). Other research has been done previously showed that program of micro-small businesses lending programs in Bandung, commonly have problem on competence insufficient of facilitator/project administrator, lack of business management on debtor, and most of the projects was done only by short term project (6 – 9 months). Besides that, most lending programs like this also had weak mechanism to select potential debtor, less participated on local government staff, and less program socialized to public (LPM-UPI, 2003). Since Barokah Program was different with other short-termed lending program in Bandung, thus it is needed to do research deeper into this project. This study aims to examine the program by the way of case study to then recommend some alternatives for remedial solution.

II. Objectives

1. To understand the characteristic of Barokah Program.
2. To see how the implementation of Barokah Program.
3. To find the real problems in Barokah Program.
4. To set some recommendations for Barokah Program improvement.

III. Methodology

This research was used qualitative design with case study method, which means a deep research on program implementation of small business lending program. A case study approach was selected based on the usefulness and appropriateness of this object study. Yin (1994) explained that a case study is a special kind of qualitative work that investigates contextualized, contemporary phenomena within a specific boundary. Data were collected from both, primary and secondary data. Data collected by interviewing selected respondents from local government, manager of the program and program recipients, group discuss among the government, and the scholars, also all reports, documents and materials that support the study. In order to reduce the subjective level, data triangulation technique was applied. According to Yeasmin (2012) triangulation is a process of verification that increases validity by incorporating several viewpoints and methods.

IV. Discussion

4.1. Characteristic of the Program

Barokah was a micro small business scale credit lending program that implemented in Bandung, Indonesia. The main objective of this program is to empower the economy of people society in Bandung, Indonesia, specifically on micro to small enterprises, cooperation, and other society economic institutions. The legal basis of this program was SK Walikota Bandung No. 195 Tahun 2001 tentang program Barokah-GMT. Although this program basically is a grant from local government, but the fund was not really granted, and it was lent, thus it can be revolved and sustain the program. Hence, the collateral on this lending program was still exist, only the main purpose was not to cover the failure of credit return, but moreover to maintain the accountability of the debtor on the agreement that had been agreed. The implementation of this program was run by Tim Teknis (Technical Team), Sarjana Pendamping (Facilitators) and BJB Bank as a loan distributor or channeling agency. Technical team is a team formed by local government that consists of the mayor and local government employees, which is related or expert in this program. Facilitators are several experts that have main duty to serve, educate, communicate, supervise, and maintain the relation directly to the debtors, and BJB Bank is a majority owned by public government bank played a role as financial services (saving, distributing, and reporting the money). The benefits of the program were small groups consist of 3-10 persons, that surveyed by facilitators, and agreed by Technical Team. The loan is free of interest and administration or provision fees, it was only based on profit sharing that similar to economic sharia laws. If one person passed away or the business failed, so the other person on their group should take the responsibility to return the credit. The loan was maximum Rp.2,000,000.- per person for 1 year with 2 months grace period for working capital loan, and Rp.2,500,000.- investment loan per person for 2.5 years with 6 months grace period. Lastly about bad loans, if this happened than the treatment will be two options: if the business still operating, then it will be rescheduled, but if the business was less possible to be continued, then all the left assets will be taken by Technical team and they will take the group saving at the BJB Bank to minimize the lost.

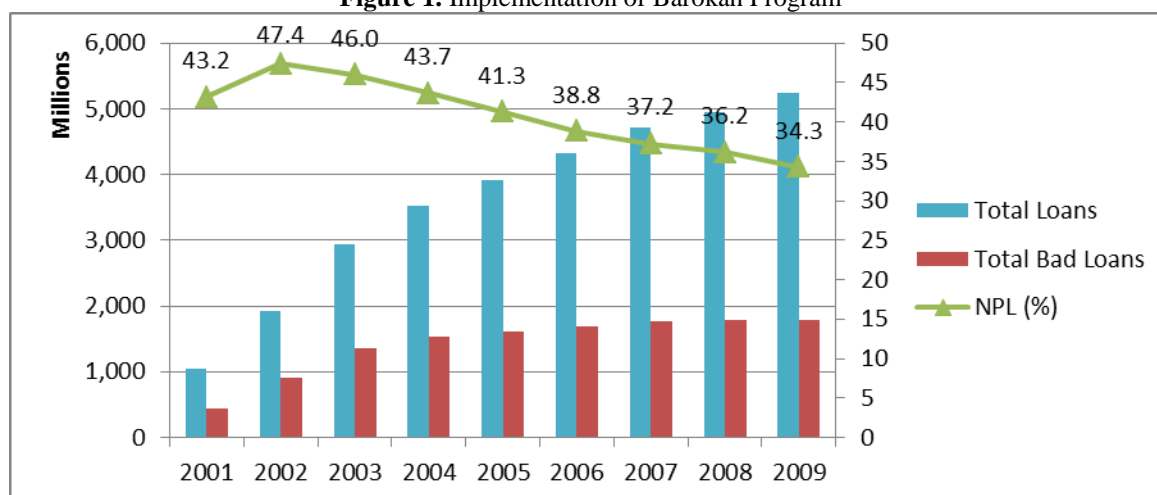
4.2. Implementation of the Program

Started in 2001 until it was stopped in 2009, Program of Barokah was implemented on 6 districts in Bandung, Indonesia by the expertise of Facilitators, Technical Team and BJB Bank. During its progress, it had distributed the micro and small loans to the debtors around Rp.5.2 Billion in total. However, the progress was followed also by bad loans for around Rp.1.7 Billion. Its mean this program had around 34% bad loans, or in banking sector known as a Non Performing Loan (NPL). Refer to Laws of BI (Indonesian Central Bank) No. 15/2/PBI/2013, that a financial institution can be indicated as problematic if they had more than 5% NPL ratio and should have serious supervision from BI, then 32.6% NPL was indicated a significant problem for Program of Barokah. The implementation of Barokah Program in details can be seen on the table 1 below.

Table 1. Total Loans and Bad Loans of Barokah Program

Year	Total Loans (Rp)	Bad Loans (Rp)	Total Bad Loans (Rp)
2001	1,037,930,000	448,060,770	448,060,770
2002	1,930,930,000	466,404,280	914,465,050
2003	2,945,980,000	440,437,520	1,354,902,570
2004	3,531,480,000	186,957,910	1,541,860,480
2005	3,922,480,000	76,333,100	1,618,193,580
2006	4,325,480,000	60,833,140	1,679,026,720
2007	4,720,980,000	79,533,300	1,758,560,020
2008	4,946,980,000	31,316,547	1,789,876,567
2009	5,242,980,000	6,100,000	1,795,976,567

Figure 1. Implementation of Barokah Program



Based on figure 1, from 2001 to 2009, despite total bad loans was generally increased but actually total percentage of NPL was tend to be gradually decreased. It showed that there was performance improvement on program administrator. However, at the end, 34.3% of NPL were still too much if it is compared to 5% NPL maximum to be accepted that standardized by BI.

4.3. Problems on Program

Deep interviews had been done to seek real problems that encountered by this program. Bad loans generally occurred by the bankruptcy of their businesses. From debtor side, it usually happened because of lack of competence from people in the group, most of the problems with their leaders. Some of their leaders did not return the money deposited by their members, or he just used the money only for himself, or even just took away the money without confirming it first to his members. Moreover, the problem also came with their member(s), usually it because they had moved with unclear new address, or basically they did not have good intention to pay their loans. Besides, several cases found because other things, such as member(s) illness or even passed away. Problems encountered by debtors can be seen more details on the table 2 below.

Table 2. Problem Cause of Bad Loans on Barokah Program

No.	District Area	Bankruptcy of Business	Leader's Problem	Member's Problem	Others Problem
1	Bojonagara	32	21	13	10
2	Tegallega	16	40	17	9
3	Karees	37	32	14	10
4	Cibeunying	11	34	12	3
5	Ujungberung	33	18	8	8
6	Gedebage	35	31	12	5
	Total	164	176	76	45

Based on interviews with several Facilitators and members of Technical Team, there were also some hindrances relating to the operation of this program, namely:

- Telephone at their office cannot used to call to outside party, only receive the calls from outside. This was an obstacle for Facilitators to contact the debtors.
- They did not have a vehicle facilities, even for motorcycle, thus it limited the mobility of Facilitators.
- It was so hard to find good debtor, since many of potential debtors did not have adequate mental of entrepreneurship.
- Many debtors had lack of managerial competence, so their businesses tend to be missed management.
- Many debtors usually mixed up their firm capital with personal funds, thus the fund tends to be used for consumptive matters rather than productive.
- Also, it was so hard to change general mindset that firmly embed on people society perspective, that all funds came from the government is always granted or even only "political bribe" for people society, thus they did not have an obligation to return the money back.
- In reality, they found many potential small businesses still need financial support to develop their businesses, only the access and the budget were still limited.
- There were not enough facilities, both quality and quantity to support the program to develop micro to small businesses.
- It was not easy to deal with bad loans from bad debtors, especially with limited facilities.

Meanwhile, from group discussing with Technical Team, Facilitators and Scholars, besides all problems explained before, there was one big problem regarding the legal basis of this program. Although this program was implemented based on SK Walikota (Decree of Mayor) in Bandung but principally the financial report was not in lined with Government Accountancy Standard, therefore it has potential accused of violating the law by the authorities. At first launched in 2001, this program assumed that the status of the fund was granted from local government, even though in reality it was not really grant, but it was revolving fund, then they decided to categorize as other assets on their accountancy. It went smoothly until on 2005 there was new law regarding Government Accountancy Standard (PP RI No.24 Tahun 2005, specifically on Buletin Teknis No.7 about Revolving Fund) explained that revolving fund should managed by a special working unit called Badan Layanan Umum (Public Service Agency) or Institution outside of the government. Since Barokah program was managed by only ordinary working unit, so they cannot manage revolving funds as flexible as Badan Layanan Umum (special working units), and potentially to violating the laws.

V. Conclusions

Around 8 years served many micro and small businesses by lending program, Barokah Program generally was well implemented. Total loan distributed was Rp.5,242,980,000.- with Rp.1,795,976,567.- categorized as bad loans. It was not a really good achievement, however, the trend of NPL level was gradually declined can be indicated as some improvements of program administrator. Problems occurred on this program, namely: businesses went bankrupts, leader's problem on debt group, member's problem, and others like member(s) illness or passed away. The mayor mindset of people society that always assumed the funds from government is always granted, also generate significant problem. Moreover, lack facilities on Facilitators had been hampered their duty to maintenance the debtors. Lastly, the inappropriate of base law of the program with government accountancy standard, could potentially violate the laws.

VI. Recommendations

From this study, the following recommendations to improve Barokah Program or other similar programs were made:

- It is important to look carefully at the compatibility of the basic legality of the program with other legal laws, especially on newest government accountancy standards. There are two possible options to manage the revolving funds: establish a special working unit like "Badan Layanan Umum" or working with other financial institutions beyond the government.
- The quality of Facilitators is one critical factor to maintain the program optimally, also they should equipped with sufficient facilities.
- The potential debtors need good and standardized training transferred by newest training method, especially about entrepreneur and management.
- It is needed, good and intense socialization and publication about the program, thus people society can be fully aware about program principles.
- The facilitators also need a standard quality to select the potential debtors, thus the selected debtors will be more appropriate to the program.

- It is always good to involve local government to maintenance debtors that live in their area, since they are known better about their own society.
- Since the NPL ratio of this program is high, thus despite of trying to continue to distribute the credit, it is better for program administrators to focus on resolving the bad loans first until it is in the safe zone that set by Indonesian Central Bank (maximum 5% NPL).
- Lastly, since this kind of SMEs revolving fund program is a long and unlimited journey activities, therefore it cannot run by "project approach" which generally limited by the time. The strategic plan of this kind of programs need to be designed as a sustainable activity, thus the stakeholders have a chance to benefit maximally from the program.

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