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Current Funding Models for SMEs: A Case Study of SMEs under PT. XXX-A Preliminary Study

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Abstract: *This research is determined to investigate the kinds of funding models that are being used by the banks for the SMEs under PT. XXX, a state-owned company that mainly guarantees all kinds of funding from the (commercial) banks to th SMEs.This research found that there are no variations of the funding models that were being applied to the SMEs in Indonesia. Though the characteristics of the SMEs' businesses might be different one to the others, they would have to deal with the same funding models. This research was a qualitative research. In-depth Interview method was being used to gain the information. This research is a preliminary research. It is not being designed to determine what kind of funding model that would be suitable for the SMEs, but it is limited to find out the current funding models that are actually being used by the banks to the SME. The general funding model could not be applied to all sectors of SMEs because of the unique characters of the SMEs itself - which would relate to the cash flow of the business and their ability to return the loan.*

Keywords: *Funding Models, SMEs, PT. XXX, banks*

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I. Introduction

SMEs would need some supports, mainly from the banks as the institutions that could provide them the funding to develop the business. This situation is supported by theIndonesian government, through the Indonesian Central Bank, Bank Indonesia.

The Indonesian Central Bank, Bank Indonesia had stated that all banks in Indonesia should funnel at least 20% of total credit. The credits that had been funneled to the SMEs have already reached 19% of all total credits (in 2014). Though, it is found out that not all banks had been totally participated. One of the factors that had been considered as the main cause of the reluctance of the banks is the high NPL rate (Non Performing Loan) of the credits (for the SMEs). Data from BI stated that the SMEs are the top contributors for high NPL rate.

The high rate of NPL and the rigid banks' policies on loan return, without considering the condition of the business have made the credit funnelling rate (to SMEs) considerably low. On the other handl it made the creditors (and the future creditors) that wanted to start their business should think twice before they decided to submit funding request.

PT. XXX, as a state-owned institution that is being placed in the middle between the SMEs and the banks. PT. XXX claimed that at this point, they have already more than 16 millions of SMEs in all over the country. The function of PT. XXX is to be the guarantee of the SMEs to the bank. In term of default, PT. XXX would cover the installment to the Banks, so the SMEs' records in the bank would remain clear. PT. XXX itself put themselves as the facilitator between banks and SMEs, by providing the data of the funded-ready SMEs.

Problem Identification

The researchers found a phenomena of the funding models by the banks. Although the BI has stated that each bank should be able to allocate 20% of their credits to the SMEs, not all of those banks had been participated.

As it was stated earlier, the banks itself seemed to avoid some sectors of the SMEs that are considered as the high-risk SMEs (to be funded), in term of avoiding the high NPL rate.This research was designed to determine the current funding models that mostly are being used by the banks to fund the SMEs under Jamrkindo.

It was found that though the SMEs had managed to get the credit, some of them had difficulties to manage the fund. This situation was happened because some of those SMEs could not directly have some cashback from the business operation. They might need to wait for some periodes (could be months) to gain the benefits of the business. On the other hand, they should be able to maintain their credit instalments to the banks to avoid banks' actions to their business.They believe that the scheme of the credits shoud be modified, adjusted with the type of the business itself, so they would not have to push themselves to pay the installments, while actually, the business has not making profit yet.

Research Objective

This research was designed to find out the current funding models that mostly are being used to fund the SMEs. Knowing the most applied funding models would give us the preview of how the SMEs should manage the fund wisely.

Research Urgency

Funding models are considered as something crucial. Considering that there are huge variations of SMEs in Indonesia, and most of them need the support from the legal funding institutions such as banks.

By knowing the current most applied funding models, we would be able to know how the funding models worked to the SMEs, how suitable did it to the SMEs business, and how the business owners deal with the banks – in term of paying the installments, while the businesses had not making any profits at the mean time.

II. Literature Review

2.1. SMEs Development in Indonesia

According to researchers, the existence of the SMEs in the Indonesian economic are considered as dominant and significant. It could be shown by the data from the BPS. The growth had reached nearly 100% from 2007 to 2009, (Asnur, 2009)*cit* (Rahmdhansyah & Silahahi, 2013).

According to (Fabritz, Falck, & Saavedra, 2016) in the International Finance Corporation in Doing Business 2015, indeed it was reported that Indonesia's position had been jumped to 114. However, furthermore it was stated that it was remaining behind other countries in the same region (South East Asia) such as Malaysia in the 14th position, Vietnam (78), Philippine (95) and even the smalles country in South Eash Asia, Brunei Darussalam in 101 position.

Lack of initial capital might be one of the factors that should be considered. This statement is issued by (Prakosa, Permana, Hartanto, & Pramudito, 2014). Those researchers stated that without the initial capital, it would be hard for the (future) entrepreneur, or some small entrepreneurs to develop their business ideas, or their businesses. The continuation of this condition would be postponing the business, or even a cancellation.

In order to stimulate the development of the entrepreneurs in Indonesia, the Indonesia's government, through the Indonesia's Central Bank, Bank Indonesia had issued some regulations. One of the regulation that was directly related to this particular issue is that all banks in Indonesia should funnel at least 20% of total credit. The credits that had been funneled to the SMEs have already reached 19% of all total credits (in 2014) (Prakosa et al., 2014).

However, this support might not be as effective as it was predicted before, as not all banks had been participated in this regulation. Still, according to (Prakosa et al., 2014), the high NPL rate (Non Performing Loan) of the credits (for the SMEs). Data from BI stated that the SMEs are the top contributors for high NPL rate.

The high rate of NPL and the rigid banks' policies on loan return, without considering the condition of the business have made the credit funnelling rate (to SMEs) considerably low.

2.2. Funding Models in Commercial Banks

Though, as it was stated in the beginning of this paper, that the Indonesian Goverment through Bank Indonesia had stated that each bank in Indonesia (including the foreign banks and foreign financial institutions) should funnel 20% of their credit scemes to the SMEs, the practice was not that pretty.

SMEs still had some difficulties to access the credit. One of the problem that they might had to deal with would be the rigid policies of the banks for the SMEs. The possibilities of Non Performing Loan, that was shown by the high NPL Rate made the banks had to think several times before they could release their funds to the SMEs.

According to (Katili, Tommy, & Untu, 2014), the banks have several kinds of factors that could be used to determine the funding to the customers. Those factors are the prospect of the business, the performance of SMEs owners, and the capability to return the loan.

Furthermore, (Katili et al., 2014) stated that the banks could give 70% of the goods turnover of the SMEs business. It was assumed that the SMEs has already had at least 30% of the capital. By that, it means that the banks would not cover the whole fund of the business.

Banks give the funding to the SMEs in the form of credits. According to Bank Indonesia Regulation of Regular Bank Assets Quality Assessment (Indonesia, 2005), credit is a money providing action or something similar to that, based on the agreement of funding between Bank and the other party that put the borrower in their obligation to return the money after some certain period with interest included. It means, the funding that would be received by the SMEs would be consisting of the main amount of the funding itself, and then it would be added by the interest (calculated annually times the duration of the funding period), and it would still be added with the administration fee of the banks.

The banks would assess the SMEs based on several items of assessment. Those items are, the punctuality of the payment (both the main loan and the interest), availability and accuracy of SMEs finance information, completed credit documents, credit agreement compliance, the suitability of the use of the funds, and the deliberity of the payment resource (Indonesia, 2005).

Furthermore, it was also stated the declaration of default would be made when the SMEs did these followings: there were arrears of main credit or interest for 90 days; and, the banks did not receive any payments (main credit and/or interest). The payment period, where the creditors (the SMEs) should have started paying the installment would be started a month after the credit deed was being agreed between the banks and the SMEs. The banks would not consider any specific conditions related to the business process, such as the delay of production due to the delay of third party fulfillment, or the delay of the in-flow because of the production period such as in the agriculture-based businesses.

2.3. PT. XXX *Role in SMEs Development*

This is a state-owned company, which mainy guaratees the credits of the SMEs to the banks. Their main role is to guarantee the existence of the credits' installments, no matter what happened to the SMEs. The high NPL rate that made the banks hesitated to give the funding to the SMEs should have been reduced by the existence of this company. The existence of this company is reducing the risk of the banks, soon after they released the funds to the SMEs.

PT. XXX would not only guarantee the funding to the banks, they would also do some monitoring and assistancy actions to the SMEs, especially those 'troubled' SMEs. The 'troubled' SMEs would be assisted and monitored until they could be able to return the funds to PT. XXX. Not only able to return the fund, the assistancy programs were dedicated to ensure that the SMEs would still be in their actions, healthy and alive.

III. Materials And Methods

This is a qualitative research using the In-depth interview. This method had been considered as the most comprehensive method to gain the qualitatitve data and it could be used for various purposes, such as problem identification, assessment,or strategic planning (Guion, 2006)

In-depth interview would be ultimatly useful when we needed the detail information about someone's opinion (expert), or when we wanted to explore some new issues comprehensively. It gives us the chance to get the complete descriptions about the researched issues (Boyce & Neale, 2006)

There are factors that differentiate one interview to the others. To ensure that the interview would be successful, we should be able to feel th condition of the persons that were being interview, and being more flexible on some certain things that came up during the interview(Berry, 1999)

The most important part of the In-Depth Interview is the sampling phase. Based on the statement of Cresswell *cited* (Turner, 2010), the researchers should use one of various kinds of strategies to get the perfect quality of informant candidates, that would be able to give the relevant information.

This research used the purpossive sampling method in order to gain all kinds of necessary information. The informant candidates are taken from the SMEs under PT. XXX, and several individual that have deep knowledge about the research matter. The interview would be stopped soon after the researchers found the consistent facts of the researched topic.

The Collected data would be arranged systematically. The researchers would organize the data into categories, describe it into units, synthesizing, arrange in pattern, chose and assemble the conclusion to be able to be understood by the readers. Refers to (Guion, 2006)the process after interview are: 1) Transcribing, 2) Analyzing, and 3) Analyzing. The data analysis of this research was using the coding method of (Corbin & Strauss, 1990)*cit* (Sekaran & Bougie, 2013). There were three coding process in this research; 1) Open coding, 2) Axial Coding, and 3) Selective Coding,

According to Patton, *cited* (Moleong, 2013), one of the validity tests in the qualitative research is the triangulation method. The triangulation method consits of four ways: 1) Source triangulation, 2) Method triangulation, 3) Researcher triangulation and 4) Theoritical triangulation. The researchers chose to use the Researcher triangulation.

IV. Result And Discussion

The informants were chosen from the SMEs database of PT. XXX. The SMEs should be the SMEs that had already being guaranteed by PT. XXX. The informants were from various kinds of SMEs, which would give us the overview of how the funding that were given by the banks – with the current funding models, impacted their businesses.

The other informants were chosen from the internal PT. XXX. These informants were chosen in order to be able to give their opinions about the funding models of the banks to the SMEs.

So, the study were involving informants from the SMEs and the informant from PT. XXX.

Table 1. Informants Data

No	Informant	SMEs/PT. XXX	Business Type
1	A	SMEs	Fashion
2	B	SMEs	Fashion
3	C	SMEs	Food & Beverage
4	D	SMEs	Creative
5	E	PT. XXX	-
6	F	PT. XXX	-
7	G	PT. XXX	-

These informant showed their comprehension about the research matter. According to their statements, the funding model for the SMEs should be defined based on the type of the businesses. They stated, each business has different characteristics. That is why, the specific funding models would be necessary. Based on the interview result, the researchers divided the information based on four categories, that are: 1) Business Type of SMEs, 2) Banks Funding Method, 3) SMEs' Cashflow, and 4) Ability to Pay Installment.

4.1. Business Type of the SMEs

According to the informants, they are all agree that there are so many business types of the SMEs. According to the informants, there are many kinds of business that should not be classified in the same classification, because each of them has the unique characteristics.

The unique characteristics would have some impacts to other aspects of the business, mainly to the operational aspects and the financial aspects.Most informants stated that the banks should have classified the businessess (of SMEs) into some certain types with each unique funding method.

The main reasons of this classification is that each type of businesses might have the different type of cash flows. The informants gave similar examples, based on their experiences. The retail sector such as the retail stores that are mainly sell the retail products might have the simpler cash-flow, compared to the agriculture business type. The agriculture business would require some periods (could be months) to gain their first in-flow. During the waiting period, the farmers would not have any in-flow from the business, so, basically, they did not have the ability to pay the monthly installments of the loan.

4.2. Banks Funding Models

All informants agreed that in this on going process of the whole businesses, they only saw one kind of funding model. This funding model is being applied to all kinds of businesses, no matter what the characteristics of the businesses might be.

The funding model that is currently being used in all banks (to all of their customers) is the fixed monthly installments soon after the credit had been agreed b y the banks. The banks did not consider any other possible facts and terms that might happen during the business process, such as a delay business process due to some certain situations, even for something that could be considered as massive obstacles such as monetery crisis – back to 2008 when the global busines condition had the similar conditions.

This is not the kind of situations that would be beneficial for the SMEs. One side, they did not have any options, considering they needed the funding, for any reasons (business development, asset acquisitions, equipment purchase, etc). On the other side, they realized that even when they had not make any profits, or even if the businesses had not even run yet – because they were still waiting for the equipment to come, or still in the preparation period, they would still have to pay the installments.

4.3. SMEs' Cashflow

According to the informants, they agreed that not all businesses have similar kinds of cashflow. They gave the agriculture business as example. The agriculture business would have the different kind of cashflow, compared to the food and beverage business.

Furthermore, the informant stated, even in the food and beverage business that is considered as the easy-to-sell business, it still needed sometimes to be ready to be sold to the market. They would need to have some periods for preparations, such as preparing the outlet, training some staffs and other kinds of preparation activities, which, according to the informants, those activities would require some costs.

Expensing lots of costs for the preparation would reduce the capability of the SMEs to install the loan. Yet, the banks have their own policies. This situation might put the SMEs into some uncomfortable situations. Furthermore, it might have some serious impacts to the funding, which they should use the reserve funds to pay the monthly installments to avoid the banks' actions.

The even worse situation would happen to the SMEs business that require more period to prepare. They would have to spend more of their reserve funds to pay the installments, while on the other hands, the business itself had not make any profits yet.

4.4. Ability to Pay the Installments

The banks used the conventional funding model to fund the SMEs. This conventional funding model is that the conventional funding model where the whole amount of the credit, after being added with the interest and administration fee, would be divided into the periods of the credit duration (in months). The number resulted from the calculation above is the amount of the monthly installments, that should be installed by the creditors, just a month after they received the funding – regardless the situation of their businesses.

The informants stated that this condition might bring the SMEs into three kinds of situations: *first*, the business run well, so the SMEs would be able to pay the installments without any problems with their cashflows. *Second*, the SMEs would have to use the remaining fund in their accounts – which were the part of the funding that they received from the banks, to pay for the monthly installments of the credits, considering that their current business actions had not make any money yet.

Third, if the *second* point above went far too long, the SMEs might have some problems to continue the installments and the business as well. They had used the rest of the fund that they received from the banks to cover the monthly installments, yet, the business had not gone as they had already predicted previously.

This situation would lead them to default, and in the end, the banks would take some actions. This is the situation that all SMEs would prefer to avoid.

V. Conclusions & Suggestions

Conclusions

The researchers came to the conclusions that, ***One***, there are too many kinds of business types of the SMEs. Each type of the business has its own characteristics that might be different with the other kinds of businesses. The different characteristics would have some impacts to the other aspects of the business itself, in this particular matter, the finance aspect.

Two, the banks should be able to provide the different kinds of funding models, based on the business type itself. Each kind of business type should have its kind of funding models, so the SMEs would not have extra burdens on installing the payments of the loan. This is relevant with the statement of (Bayu & Sulistiyo S, 2012). They stated that the funding model should for SMEs should have the specific characteristics, different with the existing funding model.

Three, the cashflow of each business would be different, based on the characteristics of the business process itself. Furthermore, the business process would have some impacts to the aspects of the business itself, and one of the aspects would be the cashflow.

For some certain business types, such as agriculture-based businesses, the cashflow would remain negative before the harvesting period came. Another example is the food and beverage based business. They might need to wait for several months to have the positive cashflow. The negative cashflow would go even deeper if they still had to pay for the loan installments. This is why, the banks should have created some certain different funding models, based on the characteristics of the business itself.

Four, the ability to pay the loan would depend in the cashflow. If the banks were still using the conventional funding models – as what is actually on going, there would be some certain negative conditions that might happen.

The business might fail to be developed, since the SMEs would have to concentrate to pay the installments. There were some facts – as the informants stated, that the SMEs shoud use the remaining funds that they got from the banks, to pay the banks, because the business still in negative cashflow.

If this condition continued, the SMEs would be running out of money, either for business operations or to pay the installments.

Suggestions

Based on the conclusions above, the researchers came up with some suggestions: ***One***, each business has the unique characteristics, especially when we discussed about their cashflow. The banks, before they determined the funding models, they should have analyzed the characteristics of the business' cashflow, so they could determine, when the business would start making money.

Two, if a dedicated (to each business) funding model would not be possible, due to the operational issue such as monitoring, the banks might be able to consider of making some certain categories of businesses. By doing this, the SMEs would be able to adjust their business process, and the funding model would be (much more) fair to the SMEs.

For example, the banks could categorize the funding models into several categories such as food and beverages – where all kinds of food and beverages based business would be using the similar funding model. The banks could also created the agriculture-based funding model, where all kinds of agriculture-based businesses would be using the similar funding model, but it would be different with the funding model of the food and beverage – based business.

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