LOAN COLLECTIBILITY AS AN IMPACT OF INABILITY TO MANAGE SMALL AND MEDIUM ENTERPRISES (SMES)

Hariandy Hasbi
Business and Management Department, Widyatama University, Bandung, Indonesia
hariandy@widyatama.ac.id

ABSTRACT
This study investigates empirically the impact of loan collectibility on SMEs based on Economic Sectors. Loan collectability is represented by lending from banks and financial management companies. Samples were taken from the Indonesian Banking Statistics on SMEs from the period 2008 to 2009. This secondary data was collected using the purposive sampling method. Descriptive methods and multiple regression analysis were utilized. The results of this study indicate that loans collectibility has a significant impact on the inability to manage small and medium enterprises (SMEs).

KEYWORDS: Loans Collectibility, SMEs Financial Management

1. INTRODUCTION

Beginning economic crisis in 1998 and recovery period until the recurrence of crisis in early 2009 from several studies show that Indonesia's economy is not just rely on the role of large-scale corporate enterprise, but rather supported by the real sector which is a public industry better known as Small Medium Enterprises (SMEs) and proven have relatively better endurance, according to Yoseva and Syarief (2010) that is not surprising that both in times of crisis and the economic recovery of Indonesia is very strategic role that SMEs viewed from: (1) its position as a major player because of the large amount of industry in economic activity in various sectors, (2) to be creator and the largest provider of employment, (3) an important player in the development of local economic activities and community empowerment, (4) the creator of new markets and sources of innovation (5) the contributions in maintaining the balance of payments through export activities.

This can be seen in the progress of SMEs by the end of 2008 that the number of SMEs are reach 51.3 million units, it means that SMEs are the dominant economic subjects since reaching 93.72% from the entire national economic subjects (Idris;2010).The existence of a large number of SMEs with the spread that rural of the area is a real economic power in the structure of national economic subjects. Reviewed and employment absorb, SMEs are able to absorb as many as 90,896,270 workers. It means that 97.22% of 93,491,243 total of national workers working in the SMEs sector. Pangabean (2010) says that should have realized that with the level of high employment absorption, this sector has guaranteed the stability of the labor market, emphasizing of unemployment and become the rise of vehicle for new entrepreneurs, as well as a strong growth of the national entrepreneurial and independent. Other potential can be viewed and contribution of SMEs to GDP in current prices, according to BPS in 2008 reach

Rp.2.609,4 trillion, with that number means that 55.56% and the national GDP which totals Rp.4.696,5 trillion to rely on SMEs productivity (BPS;2010).

SMEs, according Suarja (2006) in the future will still facing many obstacles and problems from the institutional, human resources, raw materials, technology, marketing tools, market information, capital and other. In capital, the potential development is still open widely, to make LKM as a force for micro financing. In addition has already extended lending schemes of the government, also available credit limit at large financial institutions and non-banks. It is seen support from Bank Indonesia through state owned banks, BPD, and Private Banks (Rahayu;2005). BI provided capital support to SMEs in terms of supply and demand policies that focus on encouraging increased banking intermediation function and to support banking performance system. The supply side, Bank Indonesia issued a variety of banking policy to increase lending to SMEs but still prudent. The policy likes by issuing a Bank Indonesia Regulation (PBI) No.3/2/PBI/2001 regarding the provision of Small Business Loan that encourage banks to give some credit to small business enterprises (SMEs), PBI No.6/25/PBI/2004 and SE No.6/44/DPNP about Commercial Bank's Business Plan for the Distribution of SME loans, which are known banks in lending commitments to SMEs, and SE No.8/3/DNP. From the demand side, the Bank Indonesia policy is more focused on strengthening complementary institutions through increased capacity building of SMEs in the form of training and research activities that support the provision of credit to SMEs. This is of course encouraging SMEs in enhancing the business capacity to be one obstacle in the development of this industry. But with the limitations of other sources such as the ability to manage the financial industry led to quite a lot of SMEs that experienced problem loans at banks.

At the end of 2009 (Bank Indonesia;2010) NPL gross of SMEs loans at 3.25%, a slight increase compared to 2008 was 3.22%, with the largest NPL gross in micro loans amount of 4.36%, followed by medium loans 3.48%, this level is the same at 2008 where NPL gross micro loans amount 4.02% and medium 3, 43%. Based on the type of usage, in late 2009 SMEs loans with the worst performance or have the largest NPL gross are loans for working capital amount 4.81% followed by loans of investment 4.52% and the last consumption loan amount 1.92%. SMEs loans by economic sector with the worst performance at the end of 2009 was the agricultural sector with NPL gross 6.46%, followed by construction sector 6.14% and the last industrial sector 5.95%.

SMEs that experienced problem loans is a phenomenon that requires mature thinking to looking for the way out because if not immediately, many SMEs that collapse causing many layoffs. In addition, bad debt that is not immediately resolved will affect the performance of the creditor (Berry;2001).

2. LITERATUR REVIEW

The draft of SME loans restructuring policy is a form of government efforts to provide legal affirmation of the importance of bad debt restructuring of SMEs. This happens with the consideration that SMEs have a very large contribution to the growth of the Indonesian economy (Suarja;2006). With the

weakness of owned SMEs in terms of financial administration and management professionals, the efforts of restructuring non-performing loans to SMEs by banks often encounter obstacles. This phenomenon resulted in the emergence of a discourse about the need for government policy regarding the restructuring of SMEs loans. In addition, in an effort to support the restructuring of SME loans based on government policies which will be published on that, the government also needs to provide guidance to SMEs in the restructuring of their loans with banks and other relevant parties. Urata (2000) says that dissemination of the policy on debt restructuring of SMEs and their implementation guidelines and policy assistance, necessary for an understanding of Government policy on debt restructuring of SMEs and the facilitation can be properly distributed to all stakeholders such as SMEs, SME associations, banks, development of SMEs, and others. In the end needed a concept of best practice regarding the settlement of problem loans and the restructuring of SMEs business. The ultimate goal of all these efforts is in order to accelerate national economic recovery through settlement immediately bad debt problems of SMEs, in order to both of creditors and debtors to immediately improve its performance.

Non-performing loans by Warjiyo and Untoro (2005) is loans that are not able to be repaid by the debtor, both of interest and principal. Bad debt is usually caused by the financial difficulties experienced by debtor due to increased interest expense. The completion of bad debt can be made through litigation (law) approach and non-litigation approach or out of court solution.

Bad debt is loans that within the implementation is not achieving or meeting the require target by the Bank, then have the possibility getting a risk in the future for the Bank, also experiencing difficulties in the completion of its obligations either in the form of repayment of principal and or payment interest, penalties and bank fees that shall be paid by debtors (Rahayu;2005).

Meanwhile, the Loans according to the UU No.10/1998 on Banking is the provision of money or bills can be equated with that, based on the agreement of borrowing and lending between banks and other parties who require the borrower to repay the obligation after a certain period with interest

Loans according to the Scale can be grouped into several types (1) Corporate Loans, namely credit to debtors group or non-group with a total facility cash loans and or non cash loans over Rp.25 billion. (2) Commercial Loans, which loans to borrowers group or non groups with facilities cash loans and or non cash loans above Rp.35 million to less than Rp.25 billion. (3) Retail Loans, the loans to the debtor group or non-group with a total facility cash loans and or non cash loans up to Rp.350 million and all consumer loans regardless of the amount (Warjiyo;2005).

The Quality of loans grouped into 5 categories (SE No.31/10/UPPB/1998 BI), among others:

a) Current; loan no arrears of interest and principal, the loan not yet due and there is no overdraft because of the withdrawal. Payment of obligations in the future estimated in accordance with the schedule and no doubt at all. Conditions: (a) Payment of principal and / or interest on time (b) Having an

active account mutation (c) Part of the loan collateral guarantee with cash collateral.

b) Particular attention; credit that shows a weakness in the financial condition or credit worthiness of borrowers. This is for example characterized by a downward trend in profit margin and sales turnover or credit refund program are unrealistic or inadequate collateral, credit information or documentation. Conditions: (a) There are arrears in principal repayment and / or interest which has not exceeded 90 days (b) It sometimes happens overdraft (c) The changes in relative account is active (d) Rarely in the agreed breach of contract, (e) Supported by new loan.

c) Substandard; loans that interest payments and principal repayment may be or have been disrupted due to a very unfortunate change in financial terms and management of the debtor or the economy or politics in general or very inadequate collateral. At this stage do not seem any symptoms of losses for banks, but this condition can be prolonged and possibly getting worse. Conditions: (a) There are arrears in principal repayment and / or interest that has exceeded 90 days (b) Frequent overdrafts (c) relatively low frequency of mutations account (d) There was a breach of contract in the agreed more than 90 days (e) There are indications financial problems facing the debtor (f) Documentation of weak loans.

d) Doubtful; loans that repayment begin to doubt the entire loan, thereby potentially causing losses for banks. Conditions: (a) There are arrears in principal repayment and / or interest which have exceeded 180 days (b) There was an overdraft that is permanent (c) There is a breach of more than 180 days (d) There is capitalized interest (e) a weak legal documentation for agreements binding credit or collateral.

e) Bad debt; loans that is not considered to be charged back, the Bank will bear the losses on loans already granted. Conditions: (a) There are arrears in principal repayment and / or interest which have exceeded 270 days (b) operating losses covered by new loans (c) In terms of law and markets, security can not be liquidated at fair value.

Loans problem (Berry;2001) can be caused by factors such as internal factors as follow: (a) The weakness of management such as competence, experience, integrity, vision, mission, leadership, and internal controls, etc. (B) Unlike many competitive products are not defective or low quality, not price competitive, model and/or outdated technology (c) Constraints on production processes such as technology and production machinery (d) Weaknesses in human resource such as lack of training, morale/low investment (e) The existence of fraud, such as mark-up project, side streaming (f) Projection of business that are not realistic (g) Strike of the workers (h) Total loans are too large (i) Binding weak guarantees, warranties fictitious/problematic, difficult security sold (j) Business is a new venture financed and inexperienced (k) Low commitment owner (l) Over-expansion.

External factors, such as: (a) Changes in government regulation (b) Legal claims such as not paying taxes, copyright infringement, environmental pollution

(c) political and security conditions are unstable. (D) Change of adverse exchange rate (e) Demand for products debtors decreased such as the increasing level of competition, not biased to follow changes in technology, the loses primary buyer (f) High interest rates (g) Difficulty of raw material supply (h) The entry of new competitors because business globalization (i) The entry of substitute goods that much cheaper price. Besides due to the debtor who receives a loans, it is also possible this problem loans due from the lenders (Bank) who provide (a) Error analysis of a bank officer who lack an understanding of business customers (b) Hunted by the target of booking loan, it make the bank is not prudent (c) bank officer insufficient understanding of the structure of credit (d) Contains elements of KKN (e) Many documents and credit terms are not required (F) Weak administration document.

The way to completion loans problem is by using several methods (1) Rescheduling (SE BI No.23/12/BPPP/1991) describes an effort to rescue the credit by changing the terms of the loan agreement relating to the repayment schedule credit or time periods, including a grace period of either including the large number of installments or not (2) Reconditioning the credit rescue efforts by making changes to some or all of the terms of the loan agreement, which is not limited only to change the repayment schedule and/or credit term only, but these change without providing loans enhancement or without the

The problem from the background and some previous studies, the authors formulated two hypotheses to be tested, namely:

H_0 : Loan collectibility not provide a significant impact on the inability to manage SMEs

H_1 : Loan collectibility provide a significant impact on the inability to manage SMEs

3. RESEARCH METHODOLOGY

This research use descriptive method with Indonesian Banking Statistic as a secondary data especially for SMEs. The analysis to hypotheses testing using multiple regression and fisher test assisted SPSS 13.0 for Windows, and to determine the influence of loans collectibility as an impact of inability to manage SMEs.

3.1 Operational Variables

Evaluating of loans collectibility performance, variables that we choose are (SE BI No.31/10/UPPB/1998):

1. Current; loans that there is no arrears of principal and interest and also installment loans due date yet.
2. Particular attention; loans that shows a weakness in the financial condition or credit worthiness of borrowers.
3. Substandard; loans that interest and principal payment may be or have been disrupted due to a very unfortunate change in financial terms and management of the debtor.
4. Doubtful; loans that repayment begin to doubt the entire loans, thereby potentially causing losses for banks.

5. Bad Debt; credit is not considered to be charged back, the Bank will bear the losses on loans already granted.

3.2 Sample

This research sample selection was purposive sampling method with Indonesian Banking Statistic as a secondary data especially for SMEs Industries with monthly data period 2008 to 2009 according to Idris (2010).

Multiple regression analysis used to test the effect of non-performing loans on inability to manage SMEs from the 9 economic sectors, such as: Agriculture (AGRI), Mining (MING), Manufacturing (MFAC), Electricity (ELEC), Construction (CONS), Trade (TRAD), Transport (TRNS), Business Service (BUSS) and Others (OTHR).

Formulas:

$$Y = \alpha + AGRI_1 X_1 + MING_2 X_2 + MFAC_3 X_3 + ELEC_4 X_4 + CONS_5 X_5 + TRAD_6 X_6 + TRNS_7 X_7 + BUSS_8 X_8 + OTHR_9 X_9 + e_{10}$$

Where:

AGRI : Agriculture
MING : Mining
MFAC : Manufacturing
ELEC : Electricity
CONS : Construction
TRAD : Trade
TRNS : Transport
BUSS : Business Service
OTHR : Others

3.3 Analyze Technique

This technique or data analyzing steps is doing by these several points:

1. Describe about market situation during 2008 to 2009
2. Describe of loans collectibility of SMEs
3. Describe of loans extended from bank as a reflect financial management of SMEs
4. Measure both of collectibility on loan
5. Doing hypothesis test and make a conclusion.
6. Describe about the hypothesis result of collectibility and loans
7. Interpretation and implication the result of arrangement data with statements that related with the topics

4. RESULT AND DISCUSSION

We can see at Table 1. that the loans extended to 9 economic sector average 2008 to 2009 amount Rp.466,483 billion. The Agriculture sector, the smallest SMEs loans collectibility or bad debt amount Rp.855 billion, and the largest SMEs bad debt Rp.3,330 billion, with an average per SMEs Rp.1,886.17 billion. Of the 9 economic sectors that the smallest level of credit collectibility is Electricity sector amount Rp.7 billion, and the largest is Manufacturing sector

amount Rp.19,392 billion. collectibility average of each SMEs at least Electricity sector amount Rp.15.58 billion and the largest average each SME is the Manufacturing sector in the amount of Rp.13,073 billion.

Table 1. Descriptive of all sectors

No	Economic Sector	Code	N	Min	Max	Mean	Std.Dev
1	Agriculture	AGRI	24	855	3330	1886.17	971.04
2	Mining	MING	24	345	1050	564.50	190.91
3	Manufacturing	MFAC	24	7950	19392	13073.71	4292.29
4	Electricity	ELEC	24	7	31	15.58	5.73
5	Construction	CONS	24	919	3401	2100.46	1013.19
6	Trade	TRAD	24	3900	13842	8312.75	3572.7
7	Transport	TRNS	24	398	1955	1067.96	658.98
8	Business Services	BUSS	24	476	4215	2278.88	1518.81
9	Others	OTHR	24	2574	11388	6700.08	3725.02
10	Credit	CREDIT	24	466483	728638	602889.90	78878.24

Test results of multiple regression and t-test as shown in Table 2, that:

1. The correlation between independent variable (NPL of 9 economic sector) to lending (Credit extended) show that all of independent variable: Agriculture (AGRI), Manufacturing (MFAC), Construction (CONS), Trade (TRAD), Transport (TRNS), Business Service (BUSS) and Others (OTHR) have a strong correlation on credit. We can see that all value of independent variable 0,70 above (it means strong correlation) beside Mining (MING) and Electricity (ELEC) but still strong enough.
2. Loan collectibility reflected as bad debt or non-performing loan at sector of: Electricity (ELEC), Trade (TRAD), Transport (TRNS) and Business Service (BUSS) partially significant on influence inability to manage SME with probability value is smaller than 5% (Sig.<α=5%), while the sector of: Agriculture (AGRI), Mining (MING), Manufacturing (MFAC), Construction (CONS) and Others (OTHR) are not influence. Obtained simultaneously with the F value = 39,299 with Sig. 0.000 smaller than α = 0.05 and coefficient of determinant (r^2) = 0.937. This means proven that the Loan collectibility from 9 economic sector like Agriculture (AGRI), Mining (MING), Manufacturing (MFAC), Electricity (ELEC), Construction (CONS), Trade (TRAD), Transport (TRNS), Business Service (BUSS) and Others (OTHR) have a significant influence and greatly impact on inability to manage SMEs.

3. Regression model that created (coefficient-B column):

$$\mathbf{Y = 428{,}074.3 - 7.666.x_1 - 44.030.x_2 + 8.643.x_3 - 3{,}476.454.x_4 - 61.043\ x_5 + 29.070.x_6 + 189.795.x_7 - 92.872.x_8 - 2.593.x_9 + e_{10}}$$

Table. 2 The Calculation Result of NPL SME Data 2008 to 2009

No	Economic Sector	Code	N	r	Coeff. (B)	t	Sig.
1	Constant	-		1,000	428.074,300	5,685	0,000
2	Agriculture	AGRI	24	0,807	7,666	0,173	0,865
3	Mining	MING	24	0,592	44,030	0,451	0,659
4	Manufacturing	MFAC	24	0,701	8,643	1,337	0,202
5	Electricity	ELEC	24	(0,613)	(3.476,454)	-2,574	0,022 *
6	Construction	CONS	24	0,824	(61,043)	-1,727	0,106
7	Trade	TRAD	24	0,879	29,070	3,071	0,008 *
8	Transport	TRNS	24	0,859	189,795	2,568	0,022 *
9	Business Services	BUSS	24	0,800	(92,872)	-2,539	0,024 *
10	Others	OTHR	24	0,860	(2,593)	-0,191	0,851

* significant at α=5%

r	=	0,981
r^2	=	0,937
F	=	39,299
Sig.	=	0,000

5. CONCLUTIONS

1. The present study found that Electricity (ELEC), Trade (TRAD), Transport (TRNS) and Business Service (BUSS) are significant impact on inability to manage SMEs, however Agriculture (AGRI), Mining (MING), Manufacturing (MFAC), Construction (CONS) and Others (OTHR) are insignificant.
2. Simultaneously obtained by the independent variable Agriculture (AGRI), Mining (MING), Manufacturing (MFAC), Electricity (ELEC), Construction (CONS), Trade (TRAD), Transport (TRNS), Business Service (BUSS) and Others (OTHR) have a significant influence and greatly impact on inability to manage SMEs.
3. Loan collectibility has a significant influence and greatly impact on inability to manage SMEs.

REFERENCES

Bank Indonesia, (2010) Laporan Perkembangan Kredit MKM Triwulan IV 2009, Direktorat Kredit, BPR dan UMKM, Bank Indonesia.

Berry, A.E.R. and Sandee H., (2001) Small and Medium Enterprises Dynamics in Indonesia, Bulletin of Indonesian Economic Studies, Vol.37 No.3, ANU.

Cooper, D.R. and Schindler, P.S. 2009, *Business Research Methods*. 10th Ed. Tata McGraw-Hill Publising company Ltd., New Delhi.

Idris, Indra., (2010) Kajian Dampak Kredit Usaha Rakyat (KUR), Jurnal Pengkajian Koperasi dan UKM Vol.5 (8) pp.49-73

Pangabean, Riana., (2010) Kajian Pengembangan UMKM di Sentra Klaster Rotan Kabupaten Cirebon, Jurnal Pengkajian Koperasi dan UKM Vol.5 (8) pp.99-118

Rahayu, Sri Lestari., (2005) Analisis Peranan Perusahaan Modal Ventura dalam Mengembangkan UKM di Indonesia, Kajian Ekonomi dan Keuangan, Edisi Khusus (11).

Suarja, Wayan A.R., (2007) Kebijakan Pemberdayaan UKM dan Koperasi Guna Menggerakkan Ekonomi Rakyat dan Menanggulangi Kemiskinan, Disampaikan pada Bimbingan Teknis Pengembangan UMKM dalam Rangka Meningkatkan Perekonomian Daerah dan Percepatan Penanggulangan Kemiskinan, LPPM IPB, Bogor.

Suarja, Wayan A.R., (2006) Resensi dan Referensi Mengenai Pengkajian Peningkatan Daya Saing Usaha Kecil Menengah yang Berbasis Pengembangan Ekonomi Lokal, Jurnal Pengkajian Koperasi dan UKM, Volume 2 No.2 pp.26-40.

Suarja, Wayan A.R., (2006) Kebijakan dan Strategi Pemberdayaan Koperasi dan Usaha Mikro, Kecil dan Menengah, Disampai pada Rapimnas DPP-Perhimpunan kebangsaan, Jakarta.

Urata, Shujiro, (2000) Policy Recommendation: Outline of tentattive Policy Recomemmendation for SME Promotion in Indonesia. Publikasi JICA 17 Mei 2000.Jakarta.

Warjiyo, Perry., Untoro, (2005) Buletin Ekonomi Moneter dan Perbankan, Bank Indonesia, Vol.2 (3) pp. 584-619.

Yoseva, syarif, Teuku., (2010) Kanjian Kemanfaatan Bantuan Perkuatan Untuk Usaha Mikro, Usaha Kecil dan Usaha Menengah (UMKM), Jurnal Pengkajian Koperasi dan UKM Vol.5 (8) pp.30-48.

_____, (2002) Stategi pengembangan Iklim Usaha dalam Pengembangan Usaha Kecil dan Menegah di Daerah, Jurnal Ekonomi UNTAR, vol.7 No.1.