

DETERMINANTS OF PEOPLE'S BUSINESS LOANS APPLICATION TO MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) (Study at UMKM Malang City)

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ABSTRACT: This study intends to determine the influence of the number of Micro, Small and Medium Enterprises (MSMEs), credit interest rates and CPI (Consumer Price Index) partially and simultaneously on the number of People's Business Loans (KUR) for MSMEs in Malang City. The study used quarterly data obtained from the Financial Services Authority, the Central Statistics Agency, and the Development Planning Agency at Sub-National Level of Malang for the period 2017 – 2021 (5 years). Method of documentation is used for the data collection. Furthermore, the data is analyzed with multiple linear regression of double log models. Results of the study found: 1) the number of MSMEs, lending rates and consumer price index simultaneously have a significant impact / influence on the number of people's business loans, 2) The number of MSMEs does not have an impact on the number of people's business loans, 3) Interest rates on loans has a significant negative impact on the number of people's business loans, and 4) The consumer price index has a positive and significant impact on the number of people's business loans for MSMEs in Malang city.

Key words: People's Business Credit (KUR), Consumer Price Index, MSMEs.

ABSTRAK

Penelitian ini bermaksud untuk mengetahui apakah jumlah Usaha Mikro, Kecil dan Menengah (UMKM), suku bunga kredit dan IHK (Indeks Harga Konsumen) dengan parsial dan secara simultan terhadap jumlah Kredit Usaha Rakyat (KUR) untuk UMKM di Kota Malang. Penelitian memakai data triwulanan yang didapat dari Otoritas Jasa Keuangan, Badan Pusat Statistik, dan Bappeda Kota Malang untuk masa tahun 2017-2021 (5 tahun). Pengumpulan data dengan metode dokumentasi. Selanjutnya analisis data dengan regresi linear berganda model double log. Hasil penelitian menemukan: 1) Jumlah UMKM, suku bunga kredit dan indeks harga konsumen secara simultan memiliki dampak / pengaruh signifikan terhadap jumlah kredit usaha rakyat, 2) Jumlah UMKM tidak berdampak terhadap jumlah kredit usaha rakyat, 3) Suku bunga kredit memiliki dampak signifikan terhadap jumlah kredit usaha rakyat, dan 4) Indeks harga konsumen secara simultan memiliki dampak positif dan signifikan terhadap jumlah kredit usaha rakyat untuk UMKM di Kota Malang.

Kata Kunci:

Kredit Usaha Rakyat, Indeks Harga Konsumen, UMKM

I. INTRODUCTION

The goal of national development is to improve the welfare of all Indonesian people which can be felt materially and spiritually. National development covers all areas of national life carried out by the government together with the community. The goal of realizing a just and prosperous society can be done by creating the widest possible employment opportunities so that people's incomes can increase and be able to grow the economic and national stability (Inayah et al., 2014).

Usaha was hampered by the COVID-19 pandemic in early 2020. When this happened, the Indonesian economy fell. It can be seen from the decline in the rupiah exchange rate against the dollar and many large businesses and MSMEs that have gone out of business.

During the economic crisis in 1998 and 2008, the condition of MSMEs in Indonesia continued to exist and could contribute greatly to the economy of Indonesia. MSMEs are productive economic businesses that are independent and are usually carried out by individuals or business entities that are not a subsidiary or non-branch of a company that is controlled either directly or indirectly from medium and large enterprises (Law No. 20/2008). During the economic crisis, MSMEs are proven to be able to contribute 99.45 percent of the total workforce. The role of MSMEs since the economic crisis can be used as aavior for the National Economy Recovery (PEN) process, as a driver of the pace of economic growth and for employment. MSMEs are a stronghold of the National Economic Defense. If MSMEs are ignored, then the Indonesia's strongholds are not maintained (Mardiyatmo, 2008).

Increasing the role of MSMEs in the National Economic Recovery (PEN) by carrying out complete and sustainable synergy between the government and MSMEs' business actors. The government has issued Law No. 20 Year 2008 about Micro, Small and Medium Enterprises (MSMEs). In Article 3, it is stated that Micro, Small, and Medium Enterprises aim to grow and develop their businesses in order to build a national economy based on a fair economic democracy. Drafting of Law No. 20 Years aims to empower MSMEs, but MSMEs' business actors still encounter obstacles, one of which is capital. For MSMEs, credit is very important because it is used for working capital finance so that they can expand their business (Putra & Rustriyuni, 2015).

The role of financial institutions is very necessary because the main source of investment financing in developing countries is generally dominated by bank lending (Suarmanayasa, 2020). The banking industry in Indonesia is at 93 percent of the total assets of the financial industry. To meet the capital needs for MSMEs, Bank Indonesia as the monetary authority once issued a policy package in 1990 that required each bank to allocate as much as 20 percent of the total credit in the form of MSME loans. In 2001, Bank Indonesia issued regulation number 3/2/PBI/2001 stating that the provision of MSME loans by banks is provided in accordance with the policies and capabilities of each bank. This policy aborts the bank's obligation to allocate credit to MSMEs. To overcome this, the Government issued a *KUR* (People's Business Credit) that can meet the capital needs of micro, small, and medium enterprises groups. *KUR* has been implemented for almost 15 years. *KUR* was first initiated in 2007 when the 6th President of the Republic of Indonesia, Susilo Bambang Yudhoyono, and continued by the 7th President, Joko Widodo.

This program has helped a lot to improve the business degree of MSMEs. *KUR* is the realization of the government's efforts to help financial access to MSMEs through financial institutions with guarantee pattern. At that time, the credit guarantors were The Public Company of Business Development Facilities (*SPU*) and Indonesian Credit Insurance (*Askrindo*). At the beginning of its appearance, *KUR* only involved six banks, namely PT Bank Mandiri (Persero) Tbk., PT Bank Negara Indonesia Tbk., PT Bank Bukopin Tbk., PT Bank Tabungan Negara Tbk. and PT Bank Syariah Mandiri. The funds provided for working capital and investment target five business sectors, namely agriculture, fisheries, marine, cooperatives, forestry, industry, and trade. The loan interest is pegged at 16 percent, with a maximum credit ceiling of Rp. 500 million per debtor. There are now 46 (forty six) *KUR* dealers consisting of government banks, private commercial banks, Regional Development Banks (*BPD*), finance companies, and cooperatives. In terms of guarantees, the *KUR* program is now supported by 10 (ten) credit guarantee institutions. The presence of guarantees in this program aims to support the prudential principle of financial institutions during the period of financing distribution of People's Business Credit (*KUR*) to MSMEs (Finansial Bisnis, 2022).

Since the beginning of the Covid-19 pandemic, MSMEs have become one of the sectors most affected by the Covid-19 pandemic. Restrictions on community activities to reduce the spread of the virus have made national economic growth crushed by various financial problems hit MSMEs. A survey by the Ministry of Cooperatives and SMEs noted that 23.1 percent of MSME's problems include decreases in sales, demand, and customers. Other problems are distribution barriers of 19.5 percent, capital reaching 19.45 percent, raw material difficulties of 19.08 percent, and production constraints of 18.87 percent. In the midst of these challenges, MSMEs that are believed to be able to become seatbelts in the national economy from the Covid-19 pandemic crisis have begun to get stimulus. Starting from *KUR* interest subsidies, loan tenor extensions, to the facility to postpone principal installments. The government began to pour out a *KUR* interest subsidy program of 3 percent since 2020 until December 2021. According to a report by the Coordinating Ministry for Economic Affairs, as of December 21, 2020, *KUR* interest subsidies were given to 7.03 million

debtors with a debit balance of IDR 187.5 trillion.

The government also provides facilities for delaying principal installments for a maximum of six months to 1.51 million debtors with a debit balance of IDR 48.18 trillion and relaxation of KUR in the form of an extension of the loan tenor for 1.51 million debtors with a debit balance of IDR 47.3 trillion. In addition, the government increased the KUR ceiling limit to 16 debtors with a debit balance of IDR 2.49 billion. With a series of relaxations rolled out, the realization of KUR disbursements in 2020 reached IDR 196.42 trillion with a total of 6.05 million debtors. This figure even exceeded the realization of the KUR in 2019, which was IDR 140.12 trillion with 4.7 million debtors. Meanwhile, the latest news states that President Joko Widodo has increased the subsidy budget for pro-program KUR by IDR 5.64 trillion for this year. With this addition, KUR interest will decrease from 6 percent to 3 percent during January – June 2022. The plan is known to be included in one of the new programs for the 2022 National Economic Recovery (PEN) by front-loading or earlier. The program, which will be rolled out in early 2022, is a continuation of the previous year's program. There are many determinants that have an impact on the absorption of working capital for MSMEs (Kundid & Ercegovac, 2011). People's Business Credit (KUR) is the amount of people's business credit distributed by the bank whose allocation is for MSME actors. This paper also examines the factors that affect the absorption of people's business loans (KUR) for MSMEs in Malang City, namely the number of MSMEs, gross domestic product (GRDP), interest rates on people's business loans and consumer price indexes. The decision to disburse MSME loans is inseparable from the number of MSMEs themselves. MSMEs are synonymous with small industries and household industries. Characteristics inherent in most MSMEs include 1) the low quality of human resources owned, 2) low labor productivity, 3) low quality of goods produced, 4) weak capital structure, 5) low innovation power and 6) lack of access to goods produced, 4) weak capital structure, 5) low innovation power and 6) lack of access to goods produced (Setyari, 2012). MSMEs are business activities that are able to create jobs so as to reduce the number of unemployed and provide broad economic services to the community. In addition, MSMEs are pillars of the national economy that are obliged to obtain superior opportunities, protection, support, and development as much as possible as a form of firm alignment with a people's economic business group (Gelaidan & Abdullateef, 2017). The existence and increase in the number of MSME sectors will have an impact on the demand for KUR loans.

II. THEORETICAL FRAMEWORK

Bank interest is a repayment of services provided by banks based on conventional principles to customers who buy or sell their products (Suarmanayasa, 2020b). Bank interest is intended as the price to be paid by the customer (credit interest). The size of the credit interest rate depends on several things such as the cost of funds, operations cost, reserves for the risk of bad loans, the profit desired by the bank and taxes. A change in interest rates is a change in the demand for money (credit). Rising interest rates lead to decrease in aggregate demand/investment expenditure (Suarmanayasa, 2020a). The determinant of credit demand is determined by the price (interest rate) of the credit. An increase in lending rates will reduce the number of loans requested while a reduction in interest rates will increase the number of loans requested (Vershina et al., 2017). Interest rates are one of the considerations for MSME actors to apply for credit. If the credit interest rate is high, then MSME actors will give up their intention to apply for credit because the interest burden that must be paid with the principal of the loan can be very burdensome (Tran et al., 2017). If the loan interest rate is low, the loan application will be carried out because the interest expense is not considered burdensome. The consumer price index (CPI) is the price band of the same number of goods and services in a given year against the base year. CPI also shows changes in the cost of living of a person or society in terms of changes in the prices of goods and services consumed. CPI is an index number that shows the level of prices for goods and services that consumers must buy in a certain period. CPI can be used to determine the inflation rate. An increase in the CPI figure indicates an increase in prices (Inayah et al., 2014). Inflation, which describes expectations for an increase in the relative prices of goods and services in the future, will result in an increase in the amount of credit requested. This will encourage MSME players to obtain additional funds from banks for the sustainability of their business. So, the increase in CPI will indirectly cause MSME players to seek additional funds through credit (Dvoulety, 2017).

This study aims to analyze the influence of the number of MSMEs, credit interest rates and consumer price index both partially and simultaneously on the number of People's Business Loans (KUR) for MSMEs in Malang City. It is hoped

that this research can provide guidance practically and academically. Academically, the results of this research can add to the characteristics of science. Practically speaking, hopefully this result can be a reference or consideration for business actors or banks in making credit terminations.

III. RESEARCH METHOD

The research location is in Malang City. The scope of the study is limited to the influence of variables on the number of MSMEs, interest rates on people's business loans, and consumer price indexes on the number of people's business loans for MSMEs. The data used is quantitative data in the form of data on the number of MSMEs, interest rates, and consumer price indices. The data used has a time span of 5 years and is in the form of quarterly data. The type of data is in the form of secondary data sourced from the Central Statistics Agency, the Financial Services Authority and the Malang City Provincial Bappeda. The variables in this study were classified into two groups, namely, 1) *dependent variables* consisting of variables in the amount of Rakyat Business Credit (*KUR*); 2) *independent variables* consisting of variable number of MSMEs, interest rates on people's business loans and consumer price indices.

The operational definition of each variable is as follows: 1) The number of people's business loans is the amount of credit provided by commercial banks in Malang City for working capital purposes distributed specifically for MSMEs, 2) The number of MSMEs is the number of businesses that with an annual income of more than 300 million to a maximum of 2.5 billion rupiah located in Malang City, 3) The loan interest rate is a special interest rate for loans for working capital purposes, and 4) the consumer price index is a ratio that shows a price comparison of a number of the same goods and services in a given year against the base year. The required data is collected using documentation methods. The data analysis technique used is multiple linear regression analysis of the *double log* model. Analysis using the SPSS Version 21 For Windows program.

IV. RESULTS AND DISCUSSION

This study used a multiple linear regression model of double *log* model. This analysis aims to obtain the best regression estimation results, namely models that have the highest coefficient of determination values and do not contain elements of violation of classical assumptions (normality, multicollinearity, heteroskedasticity and autocorrelation tests). Based on the summary of the results of data analysis contained in Table 1, the regression equation can be obtained as follows:

$$\ln \hat{Y} = 8,28 + \ln 0,04 X_1 - \ln 0,67 X_2 + \ln 0,29 X_3$$

Table 1 Regression Estimation Results with Double Log Model

Free Variables	Coefficient Regression	Standard Error	t-count	Itself
Ln Number of MSMEs (X_1)	0,042191	0,254710	0,201684	0,7323
Ln Interest Rates (X_2)	-0,672662	0,056621	-10,78231	0,0000
Ln Consumer price index (X_3)	0,292334	0,145344	2,136502	0,0019
Constant	8,280531			
RSquare (R^2)	0,982334			
F-count	849,7763			
Itself	0,00000			

Source: processed data

Based on Table 1, it can be explained that simultaneously the variable number of MSMEs, interest rates on people's business loans and the consumer price index have a significant effect on the number of people's business loans for

MSMEs. This is indicated by its significance value smaller than 0.05. Partially, the number of MSMEs has no effect on the number of people's business loans for MSMEs, this is evidenced by its significance value greater than 0.05. The variable lending rate has a negative and significant effect on the number of people's business credit for MSMEs with a significance value smaller than 0.05. The value of the coefficient of determination of 0.982 means that 98.2 percent of the variation (ups and downs) in the number of people's business loans for MSMEs at commercial banks in Malang City can be explained by variations (ups and downs) in the number of MSMEs, interest rates, and the consumer price index. The remaining 1.8 percent was affected by other variables that were not included in the model.

The results of the study proved that the number of MSMEs did not have an impact on the number of people's business loans for MSMEs in Malang City. This finding means that the absence of evidence if the number of MSMEs is large will increase the amount of credit disbursed to MSMEs, and vice versa. A change in scale can cause this condition. Suppose, if the workforce of an MSME increases, the scale of the business will increase and tends to become a large-scale business. If the number of workers decreases, the scale of the business tends to decrease and become a micro-scale business. This finding is in accordance with research (Inayah et al., 2014) but different from the results of research by Harmanta and Ekananda (2005) which found that the cause of the rise and fall of credit demand is fluctuations in the ups and downs of the number of UMKM and changes in the scale of the business. This means that the number of MSMEs and changes in business scale will greatly affect the amount of credit demand for working capital. Generally, MSME players who want to expand their business will need a lot of capital funds. One of the sources of fund capital that is usually the choice of MSME actors is banking credit. So, with the increase in the number of MSMEs and business scale, it will certainly have an impact on increasing credit demand (Harmanta & Ekananda, 2005).

The value of the credit interest rate coefficient of -0.67 means that if the loan interest rate increases by one percent, the number of people's business loans for MSMEs decreases by 0.67 percent assuming the number of MSMEs and the consumer price index remains, and vice versa. This result is in accordance with research by Suarmanayasa, (2020a) which states that an increase in lending rates will reduce the number of loans requested while a decrease in interest rates will increase the number of loans requested. This result is also in line with the research of Inayah et al., (2014) which proves that when interest rates fall, the portion of credit for MSMEs increases. Cashmere, (2015) argues that the higher banks charge credit interest rates, the less public interest in borrowing credit. This is due to the increasing burden on the amount of credit payments with a high interest expense. This situation burdens MSME actors if they are desperate to apply for credit and pay off their credit in the future. However, if the bank provides low lending rates, the interest of MSME actors to apply for loans increases, especially people's business loans (KUR) for MSMEs. People believe that they can pay off their loans in the future if lending rates are low (Inayah et al., 2018). A change in the bunga rate is a change in the demand for money (credit). An increase in interest rates results in a decrease in aggregate demand, on the contrary, a reduction in interest rates will increase demand for credit (Inayah et al., 2014).

The value of the consumer price index coefficient of 0.29 means that if the consumer price index increases by one percent, the number of people's business loans for MSMEs increases by 0.29 percent assuming the number of MSMEs and fixed lending rates, and vice versa. The results of this study are also in accordance with the research of Harmanta & Ekananda (2005) which found that inflation indicating an increase in the relative prices of goods and services in the future also resulted in an increase in the amount of credit requested. The increase in prices has resulted in business actors looking for additional funds to increase the amount of production. Increase compared to an increase in workers' wages and salaries. Price increases bring profit (profit) to business actors. The profits that have been felt by business actors will motivate business actors to continue to increase their production. The price will increase consumption nearly before the price rises and credit is one of the sources of funds for business actors (Rahardja & Manurung, 2000).

The same is emphasized by Setyari (2012) who argues that inflation can increase production assuming that production is an. The increase in prices and the change in the rate of inflation that increased do not reduce the desire of the people to increase the fulfillment of their needs. The effort to fulfill the need is carried out intensely in order to get additional income through simple investments up to large capital investments (Bianchi et al., 2017). The monetary sector has an impact with the submission of applications for business capital (credit) is increasing. This also happens to MSME actors (Tambunan, 2011). The increase in the consumer price index, which is indicated by the tendency to increase prices, then it has a very impact on increasing production costs. MSME

actors will increase capital by applying for working capital loans in the form of KUR at banks (Shibia & Barako, 2017). An increase in the consumer price index will affect the increase in the amount of credit requested (Michiels, 2017).

V. CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

Based on the results of the discussion that have been described, the following conclusions can be made: 1) the number of MSMEs, credit interest rates and consumer price index simultaneously have a significant effect on the number of people's business loans to MSMEs in Malang City, 2) The number of MSMEs does not affect the number of people's business loans, 3) Interest rates on people's business loans have a significant negative effect on the number of people's business loans, and 4) the Consumer Price Index (CPI) has a positive and significant effect on the number of People's Business Loans for MSMEs in Malang City. The limitation of this paper is that the inflation rate, consumer behavior, Gross Regional Domestic Product (GRDP) have not been included. Suggestions that can be conveyed are: 1) to the banks are expected that commercial banks will simplify the requirements and speed up the process of disbursement of People's Business Loans (KUR) to help the business sustainability of MSME actors and 2) For the next research, variables of inflation, consumer behavior can be included, Gross Regional Domestic Product (GRDP).

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