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MICRO LOAN SYSTEM PARADIGMN IN INDONESIA

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ABSTRACT
Micro loan is a loan system issued by banks for a small scope. This small scope includes loans intended for small and medium businesses (SMEs) or family loan. To understand this micro-loan system, a study is needed to describe the micro-loan system in Indonesia. The type of research chosen is descriptive-qualitative, so that the results of data collection can be described in depth. In addition, researchers also conducted a literature study to strengthen the results of the analysis conducted on the data obtained. The results show that the micro-loan system in Indonesia has been running well. Procedures to apply for loans for SMEs and households are in place and the government has provided many banking features that can be choosen by communities.
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Keyword: Loans, Micro, SMEs, Households, Banks.

1. INTRODUCTION
Micro loans are loans that are intended to help the poor or low income society in order to earn more income by increasing productivity in order to reduce poverty. Therefore, micro loans should have the characteristics of easy procedures and low transaction fee. Table 1.1 explains the characteristics of demand for micro-loans coming from the poorest households, poor households, micro-farming businesses, agriculture and animal husbandry, and non-agricultural micro-entrepreneurs according to the Asian Development Bank (2000).
From the supply side, there are various types of microfinance institutionsin Indonesia, formal micro institutions consisting of banks and non-banks, semi-formal micro financial institutions, and informal micro financial institutions. Furthermore, based on Act Number 10 of 1998 and Act Number 23 of 1999 concerning Indonesian Banking, it is explained that Bank Indonesia classifies microfinance institutions into two types, bank microfinance institutions and non-bank microfinance institutions(Umiyati & Amir, 2019).

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Tabel 1.1 Structure and Characteristic of micro-loan demand

Source of Demand	Product and Service and Characteristics of Demand
Poorest Houshold	- Loan for consumption and emergency which does not require collaterals - Micro-loan for daily activities - Periodic eduacation loan - Simple procedures - Low transaction fees
Poor Households	- Loan for consumption and emergency which does not require collaterals - Micro-loan for daily activities - Periodic eduacation loan - Simple procedures - Low transaction fees
Micro agriculture business	- Micro-loan for working capital - Micro-loan for investment - Under informal market interest - Easy access and low transaction fee - Sessional loan
Farming and Animal Husbandry	- Loan for working capital to buy animal or livestock - Loan for investment
Non-agriculture micro business	- Non sessional loan - Loan for working capital - Relatively wide under the limits of micro-loan - Low transaction fee and easy access

Source: Finance for The Poor: Microfinance Development Strategy, Asian Development Bank (2000)

The development of microfinance institutions is inseparable from a number of obstacles including the risk of asymmetric information, and product design that is only intended for people who have a certain minimum and stable income. While the obstacle on the demand side is the perception that dealing with financial institutions is persumed as a difficult process(Abdul, Pasha, & Negese, 2014). For example in the case of applying for a loan. The applicant must be able to convince the bank of its ability to be able to repay the loan at maturity as reflected in the loan proposal which contains the use of funds and sources of funds for repayment(Arifin, Sugiyanto, & Widodo, 2019).

According to the type of usage, during the period 2003 to 2005, the largest number of Micro, Small and Medium Enterprises (MSM) loans were for consumption loans. Only in 2006 the largest loans by type of use were intended for working capital loans. However, graphically, the

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growth of investmentloans has the highest increase even if seen in numbers, consumption loans is much greater. Starting in 2009 loan conditions for SME’s have begun to shift for investment. Table 1.2 shows an overview of the number of MSM loans based on types of use through bank financial institutions.

Tabel 1.2 SME’s Loan Based on the type of use

Year	Type of use		
	Woring Capital	Investment	Consumption
2002	73.679	17.356	69.942
2003	91.129	22.760	93.199
2004	111.636	28.460	130.997
2005	142.633	33.049	179.225
2006	171.118	37.147	202.177
2007	204.765	44.578	253.453
2008	247.442	54.209	332.294
2009	279.264	63.762	394.539
2010	353.218	84.590	488.874
2011	427.154	117.247	606.991

Source: Indonesian Banking Statistic, Bank Indonesia (2012)

According to Hattas (2011), lending for households might have an effect on determining children's education. But this also depends on how the household uses the loan, whether it is for productive matters or just for consumptive matters. The results found that lending did not affect children's education. Furthermore, according to Yoseva & Syarif (2010), it is said that not only micro loans affect the improvement of better household conditions but education also influences them.

Based on the discussion above, it can be seen that previous research on micro loans in helping to reduce poverty still leaves a variety of interesting things to be studied further, especially in relevance to the aims and objectives of Law Number 1 of 2013 to raise the income and welfare of the poor. Whether micro loans through financial institutions both banks and non-banks can really help change the conditions of households that were previously poor to not poor, or whether the change is not only due to micro loans received, but there are control variables that affect changes in recipient’s household conditions of these micro loans(Faisal, Wahyudi, & Rahim, 2017).

2. METHOD

In this research descriptive-qualitative methods were implemented. This type of research was chosen to provide an overview related to the implementation of micro loans that occur in the Indonesian banking (Creswell, 2012). To strengthen the results of the analysis, researchers conducted extensive and in-depth literature studies to obtain more data. This is done so that the results of the research can be generalized more broadly. The stages of the research carried out are as follows:

1. Observation with direct observation of needs

2. Interviews with resource / experts in the field of micro-loans
3. Literature study by collecting data from books and articles to strengthen the arguments and results of research analysis

3. RESULT & DISCUSSION

In the era of globalization that occurs in a country, the economic activities of society and the economy as a whole cannot be separated from the world of banking and the role of small and medium businesses (SMEs). The role of banking to advance the economy of a country in the modern world today is huge along with the development of increasingly small and medium businesses. Small and Medium Enterprises (SMEs) have a very important role in improving a country's economy. According to Sumanjaya et al (2008) this important role has driven many countries including Indonesia to continue to make efforts to develop Small and Medium Enterprises (SMEs).

Meanwhile, according to Darmansyah (2005), SMEs have a significant role in expanding the provision of employment, contributing significantly to economic growth and raising up income. Likewise, according to Brigham & Houston (2008) explaining that there are 3 reasons for developing countries considering at the importance of SMEs, (1) SME performance tends to be better in producing a productive workforce, (2) As part of its dynamics SMEs often achieve increased productivity through investment and technological change. (3) It is often believed that SMEs have the advantage of flexibility over large businesses.

In order to improve the spirit of entrepreneurship, new breakthroughs are needed to improve the entrepreneurial spirit from an early age toward students in running a business. The total population of Indonesia in 2025 is estimated at 273 million and in 2045 there are 364 million people and around 10% of the poor (Susiana, 2010), so loan products and business financing loans are needed for people who have businesses on a micro scale, so that in addition to reducing the amount of poverty and unemploymen, italso to improves a country's economy.

Micro credit or revolving funds are still mostly done for small and medium businesses and cooperation. In fact, micro-loan has proven to be effective and popular in the efforts to overcome poverty (Pratomo, 2007);(Li, Ma, He, & Sui, 2018). Then a lot of research on profitability ratios which analyzes the performance of microfinance loans to small and medium businesses is the end result of a number of policies carried out by companies that also show the combined effects of liquidity, asset management, and debt on operating results (Brigham & Houston, 2008).

The following is a micro credit system architecture design that can be applied to a business:

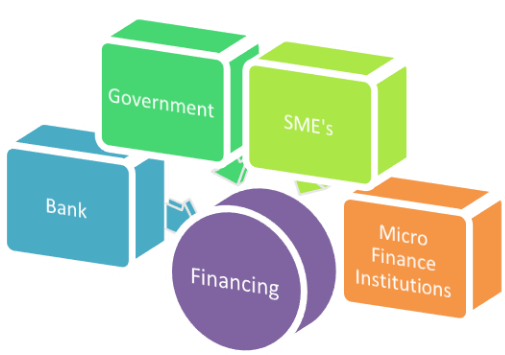

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Figure 3.1 Small Businesses Financing System (Brigham, 2008)

According to Kasmir (2008: 91) in granting credit, banks must pay attention to the principles of granting credit properly. This means that before the credit facility is given, the Bank must feel confident that the credit will actually be returned. There are several principles of credit assessment that are often done, namely by analysis of 5 C, 7 P analysis, and feasibility studies. The principle of granting credit with a 5C credit analysis can be explained as follows:

1. Character

Character is the nature or character of a person in this case a prospective debtor. The aim is to give the bank confidence that the nature or character of the people to be given loan is truly trustworthy. This belief is reflected in the background of the customer, both of a work background and a personal nature such as: the way of life or lifestyle, family circumstances, hobbies and social standing. Character is a measure to assess the "willingness" of customers to pay their credit. People who have good character will try to pay their credit in various ways.

2. Capacity (Capability)

To assess the ability of prospect debtor to pay the loan in corellation it's ability to manage its bussiness and seeking for profit.In the end, it is seen their ability to return lended loan. The more a person's income, the more ability to pay the loan.

3. Capital Baiasany bank will not be willing to finance a business 100%, meaning that every customer who applies for a loan must also provide funds from other sources or his own capital in other words Capital is to find out the sources of financing owned by customers for the business to be financed by bank.

4. Collateral

Is a guarantee given by prospective customers both physical and non physical. Guarantees should exceed the amount of credit given. Guarantees must also be examined for their validity, in case a problem occurs, then the deposited collaterals will be used as quickly as possible. The function of collateral is as a bank protector from the risk of loss.

5. Condition

In assessing a loan, economic conditions should now also be assessed now and in the future according to their respective sectors. In an unstable economic condition it is better not to give credit to certain sectors first and even if it is given, it is better to look at the business prospects in the future.

Whereas the 7 P credit rating is as follows:

1. Personalitiy

Assessing customers in terms of their personality or daily behavior and their past. Personality also includes attitudes, emotions, behavior and actions of customers in dealing with a problem. Personality is almost identical as with a character of 5 C.

2. Party

Classifying customers into certain classifications or certain groups based on capital, loyalty and character. So that customers can be classified into certain groups and will get different credit facilities from the bank. Credit for valley entrepreneurs is very different from credit for entrepreneurs with strong capital, both in terms of quantity, interest and other requirements.

3. Perpose

Finding out the purpose of the customer in taking loan, including the type of credit the customer

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wants. The purpose of taking loan can vary whether it is for consumption or for productive purposes or for trading.

4. Prospect

Assessing the customer's business in the future whether profitable or not, or in other words have prospects or not. This is important considering that if a credit facility is financed without prospects, it is not only the bank that will lose but also the customer.

5. Payment

Measuring on how customers return the loan that has been taken or, from any source of funds to return the loan obtained. The more sources of income the debtor, the better. So that if one of the businesses loses it can be covered by other sectors.

6. Profitability

Analyzing the ability of customers in seeking profits. Profitability is measured from period to period, whether the period will remain the same or will increase, especially with the additional loan that will be obtained from the bank.

7. Protection

The aim is how to maintain disbursed loan by banks but through a protection. Protection can be in the form of a collateral or people or insurance.

Besides assessment with 5C and 7P, the principle of credit rating can also be done with a feasibility study, especially for loans in relatively large amounts. The credit assessment with the feasibility study includes(Ansari, Goyal, & Ansari, 2014):

Legal Aspects

An aspect to assess the validity and authenticity of documents or documents owned by prospective debtors, such as notary deeds, business licenses or land certificates and other documents or letters.

Market and Marketing Aspects

Aspects to assess the prospects of customer’s business now and in the future.

Financial aspects

Aspect to assess the ability of prospective customers to finance and manage their businesses. From this aspect, it will be illustrated how much the costs and income that will be spent and earned. Assessment of this aspect using financial ratios.

Operational / Technical Aspects

Aspect to assess the layout of the room, business location and production capacity of a business that is reflected in the facilities and infrastructure.

Management Aspects

Aspect to assess the human resources owned by the company

From the explanation above, the writer draws the conclusion that each bank has its own Loan Lending Procedure, although in general the procedure for granting loan is the same, where the procedure for granting loan is carried out in several stages that have a goal so that the bank can ensure worthiness of a loan whether is rejected or accepted. According to (Sumanjaya et al, 2008) Loan Lending Procedures are:

1. Loan Preparation.
2. Loan analysis or assessment.
3. Loan decisions.

4. Loan Implementation and Administration.
5. Loan supervision & debtor guidance.

Meanwhile according to Kasmir (2008: 102) in general the procedures for granting a loan by legal entities are as follows:

Application

To obtain a loan facility from a bank, the first stage is for the loan applicant to submit a written loan application in the form of prosposal. The loan proposal must be accompanied by other requireddocuments. What should be considered in every submission of a loan proposal should contain information about:

- Company history, such as company's portfolio, type of business, line of management's namend educational background, company development and product marketing areas.
- The purpose of taking loan, in this case the purpose of taking loan must be clear. Is it to increase sales or increase production capacity or to establish a new factory (expansion) and other objectives. Then also need to be considered the use of loan whether for working capital or investment.
- The amount of credit and period. In the proposal, the applicant determines the amount of loan desired from the credit period.
- The applicant's method to returns the loan, means that it is necessary to explain in detail the ways in which the debtor returns his loan, whether from the sale or in other ways.
- Collateral provided in the form of letters or certificates. The collateral rating must be thorough until a false dispute occured and so on, usually every collateral is tied to a particular insurance.

Investigation

The next stage of Loan Files is the investigation of documents submitted by the credit applicant. In investigating file, matters that need to be considered is to prove the validity and authenticity of the existing files, such as the validity and authenticity of a Notary Deed, Company Registration, ID and collaterals such as Land Certificates, Car Registration to the authorized agency that issued them.

Then if valid and authentic, the bank tries to calculate whether the amount of credit requested is relevant and the customer's ability to pay. All this by using calculations of financially reported figures with various financial ratios.

Feasibility Assessment

In assessing the validity of a credit, it can be done by using 5 C or 7 P, but for larger creditsamount needs to be carried out with the Feasibility Study method. The aspects that need to be assessed in granting a credit facility are(Li et al., 2018):

a. Legal Aspects

In this aspect the aim is to assess the authenticity and validity of the documents submitted by the credit applicant. The assessment of legal aspects includes:

- Notary Deed
- Identity Card (KTP)

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- Company Registration Certificate (TDP)
- Business Permit - Building Permit (IMB)
- Taxpayer Identification Number (TIN)
- Certificates held either land certificates or valuable letters - Book Ownership of Motorized Vehicles (BPKB)
- And others

b. Market and Marketing Aspects

Is an aspect to assess whether the credit financed will sell in the market and how the marketing strategy is carried out. In this aspect, what will be assessed are current and future business prospects.

c. Financial aspect

To assess the company's finances seen from the Financial Report, Balance Sheet and Income Statement for the last 3 years. Financial analysis includes analysis using financial ratios such as liquidity ratios, leverage ratios, activity ratios, profitability ratios and principal return analysis.

d. Technical / Operational Aspects

In this aspect, what is assessed is the problem of the business location, then the completeness of the facilities and infrastructure owned, including the lay out of buildings and rooms.

e. Management Aspects

To assess the experience of the debtor in managing their business, including their human resources.

f. Economic aspects

To assess the impact of the business provided especially for the wider community both economic and social.

g. Environmental Impact Analysis aspects

This aspect is very important in the context of whether the business has been made meets the criteria for an analysis of environmental impacts on the surrounding land, water and air.

First Interview

This stage is an investigation of prospective borrowers by dealing directly with prospective borrowers. The aim is to get confidence whether the files are suitable and complete as the bank requires. This interview is also to find out about the borrower's intention and need. Questions asked can also be done by structured questions, unstructured interviews or stress interviews or by trapping customer.

On the Spot Review

After obtaining confidence in the validity of documents from the results of investigations and interviews, the next step is to conduct a review of the location of credit object. Then the results on the spot are compared with the results of the first interview.

When trying to do on the spot, you should not notify the customers, so that what we see in the field is in accordance with the actual conditions. The purpose of field visits is to ensure that the object to be funded actually exists and is in accordance with what is written in the proposal.

Second Interview

The results of field visits are compared with existing documents and the results of the one interview in the second interview. This second interview is a file revision activity, if there are deficiencies after being carried out on the spot review in the field. The notes on the request and of the first interview are compared with on the spot whether there is a match and a truth.

Decision

After going through various assessments credit starting from the completeness of document, validity and authenticity of documents as well as assessments covering all aspects of credit worthiness studies, the next step is credit decisions. The credit decision is to determine whether the credit is worthy of being given or rejected, if appropriate then, the administration is prepared, usually the credit decision will include:

- Credit agreement to be signed
- Amount of money received
- And costs to be paid.

For certain amount, credit decision usually are team decision. Similarly, for loans that are rejected, then letters of rejection should be sent in accordance with their respective reasons.

Signing a Credit Agreement / Agreement

This activity is a continuation of credit decision. Before the loan is disbursed, the prospective customer signs a credit agreementfirst, then binds the credit guarantee with a mortgage or agreement letter that is deemed necessary. Signatory implemented:

- Between the Bank and the Debtor directly or
- Through a notary.

Realization of Credit

After the credit agreement is signed, the next step is to realize the loan Realization of loan is given after signing the required documents by opening a checking or savings account at the relevant bank. Thus, withdrawing credit funds can be done through an account that has been opened. Disbursement or withdrawal of money from the account as a realization of the granting of loan can be taken according to the terms and objectives of the loan. Disbursement of loan depends on the agreement of both parties and can be done.

4. CONCLUSION

Based on the above results, it can be concluded as follows:

The target set by BI to realize micro loans through the banking business plan, is not always achievable, this is due to the global economic crisis which has led to a decreasing number of people who use micro-loan services. Specifically in the period of 2007-2008. BI succeeded in channeling funds exeeded then set targets. This has had a positive impact on the Indonesian economy as a whole. The achievement of credit realization in the last year of the study showed a significant decline, this would have an impact on the declining productivity of commercial banks as lenders, and the central bank as the parent of the banking industry in Indonesia.

Based on the Innovation theory, Bank Indonesia and commercial banks which are conducting micro credit loans need to intensify and extend to find new ideas that can support the smooth implementation of the fixed credit funds. For example, the banking sector, which is a channel for micro loan, needs to offer instant credit services, affordable installments and relatively low interest rates so that the demand for micro loan services that banks want to channel from year to year will continue to reach target. Small / Micro business owners are advised to use credit funds

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entrusted by banks, if it is used for productive activities effectively and efficiently, in the sense of supporting the smooth running of their small businesses, and not to be used for consumption.

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