THE STRATEGY TO DEVELOP MICROFINANCE FOR SMEs IN INDONESIA

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THIS WORK IS DEDICATED TO THE MEMORY OF MY DEPARTED FATHER AND MOTHER. DEDICATED FOR MY HUSBAND AND MY SONS WHO HAS ALWAYS BEEN MY INSPIRATION AND LAID THE FOUNDATION OF MY LIFE

ACKNOWLEDGEMENTS

ABSTRACT

Introduction: This study provides a systematic assessment and statistics analysis to make the strategy to develop Microfinance for SMEs' business in Indonesia. Microfinance has developed rapidly over the last two decades. Since the success of the program introduced by Grameen Bank's Muhammad Yunus (Nobel Peace Prize winner in 2006) in Bangladesh in 1980, the world's financial institutions began to give considerable attention to microfinance in reducing poverty and also making profit.

Indonesia has a potential market for the development of microfinance through micro business enterprises with a range of commercial banks and over 60,000 MFIs, more than 28.51 million poor people − or 11.07% from the total population of Indonesia's 257.563.815 people − and more than 57.1 million (Micro Enterprises), representing some 98.77% of the 57,900,787 units of the total number of all businesses (big, medium, and micro businesses) in Indonesia and contributing no less than 59% of GDP growth in 2015. Despite this progress, the Bank Indonesia's report (as the Central Bank) in July 2016 identifies that in Indonesia only 14 million have formal bank accounts for microcredit. Currently, many people in Indonesia do not have adequate access to the bank for financing their need to grow their businesses, particularly in rural areas and lack of training for micro businesses and poor people. To that end, Bank Indonesia issued a regulation that requires banks to have at least 20% of their loan portfolio dedicated to microloans by 2018 and opening up new opportunities to grow the sector further. This condition states that SMEs Business is a potential market and can make a significant contribution to support economic growth in Indonesia.

The originality of this research is there has not been any previous research on the strategy to develop microfinance for SMEs in Indonesia with the empirical study on the perception and expectations of SMEs' Businessman concerning microfinance to support their business. This study focuses on how to make a strategy based on theoretical study and empirical research study.

The aims of this study are to analyse and discuss how the market opportunities and microfinance regulation system for SMEs are implemented in Indonesia. Not only

that, this dissertation also studies the microfinance business competition for SMEs in Indonesia, the Indonesian policy on microfinance, and the analysis of the problem of microfinance Industries for SMEs in Indonesia. The empirical study in this research analyses how the financial inclusion perception and expectation of SMEs businessman on microfinance in Indonesia support their business.

Based on statistical analysis of this research dissertation, the results using *SPSS software for Windows* program and *SEM nonparametric* using *PLC program* or *known as Smart-PLS (Smart-Partial Least Square)* state that Credit Loan Lending Development is strongly influenced by the financial inclusion, financial access, and public policy. The results of this study found that the improvements in financial inclusion, financial access, and the public policy of the government can improve credit loan lending for SME Business if the credit loan lending increases offset by the improvement of Additional Services for SMEs businessman to be able to develop SMEs Business.

The theoretical study in this research dissertation states that SMEs business gives influence to the development of microfinance industry in Indonesia and gives a significant contribution in supporting economic growth in Indonesia. Therefore, it is necessary to give the effort and attention to develop SMEs Business in Indonesia and to make appropriate strategies for future development.

In this dissertation, the author provides some recommendations to development of microfinance through SMEs' potential market as follows:

a. Strategy of improvement role function OJK to develop microfinance through training & social program for SMEs in Indonesia (Chapter 2).

b. Strategy to develop SMEs business through improvement of additional services for microcredit customer (Chapter 3)

c. Strategy of improvement supervision and monitoring system through integration of stakeholders for sustainable SMEs and microfinance institutions in Indonesia (Chapter 4)

d. Improvement policy for MFI & micro banking to support SMEs in Indonesia (Chapter 5)

e.   Strategy for the development of micro credit lending for SMEs in Indonesia through financial inclusion (Chapter 7)

The author made some recommendations on the strategy to the development of Microfinance for SMEs based on an analysis of the theoretical study. Further, to reinforce the recommendations, the author made an analysis through the empirical study and it was explained in chapter 6 and 8.

The author hopes this research dissertation can provide useful Information on the development of microfinance through potential SMEs business market and give recommendations for policy makers on microfinance and other stakeholders to make better decisions to the development of microfinance in Indonesia and other countries.

The organization of the research dissertation can be explained as follows:

Chapter One: This chapter presents the study background and discusses some relevant issues of the development of microfinance in Indonesia, the definition of microfinance and microcredit, global condition issues, and the history of microfinance in Indonesia. This chapter also discusses and analyses the summary of microfinance in some representative Asian countries. This chapter presents about research methodology, explain the purpose of this study and why it is an interesting subject matter to be analysed as the projected development which is beneficial for Indonesia's SMEs microfinance industry in the future. The analytical methods were performed using the qualitative and quantitative method, research data collection, research questionnaire indicator, research flowchart, and benefit of this research.

Chapter Two: This chapter focuses on analysis and discussion, it also provides a systematic assessment of market opportunities and regulations on the microfinance for SMEs in Indonesia based on social economy, demographic conditions, microfinance industry for SMEs in Indonesia, market segmentation, and market penetration. This chapter provides information about fiscal policy and increasing economic role of SMEs and People's Business Credit program for SMEs. It also provides analysis of comparative history in the microfinance industry in selected Asian countries, Indonesia Economic Growth, and the Statistic ratio between Indonesia and selected Asian countries on microfinance. This chapter gives information on new regulations for microfinance in Indonesia and concludes by presenting a recommendation on the

strategy of improvement OJK's role and function to the development microfinance through training & social program for SMEs in Indonesia.

Chapter Three: This chapter focuses on the analysis and gives information on micro business competition between Conventional Banks and Rural Banks/BPR, development of SME's Credit in Indonesia, the challenges, and opportunities for financing SME's. The author gives recommendations for Conventional Banks and Rural Banks/BPR to the improvement services for SME's customer and makes recommendations about the appropriate role for OJK as a financial services authority to supervise the conditions of competition in the micro-banking sector, to ensure fair competition and stability of the micro-financial industry in Indonesia through the strategy for the development of SMEs' business through the improvement of additional services for microcredit customer.

Chapter Four: This chapter presents a systematic assessment of Historical and Microfinance Institutions Supervision Monitoring System. This chapter describes information about historical establishment of the OJK, vision and mission of OJK, regulation and supervision monitoring system of microfinance institutions in Indonesia from the perspective of the Law Act, No. 1 of 2013 and Law Act No. 14/POJK.05/2014, comparative supervision monitoring microfinance with another country and concludes with an analysis on the impact establishment of OJK for MFIs and presenting a recommendation in strategy of the improvement on supervision and monitoring system through integration of stakeholders for sustainable SMEs and microfinance institutions in Indonesia.

Chapter Five: This chapter focuses on the analysis of microfinance problem in Indonesia. Indonesia has a long history of microfinance, but the development of microfinance is still slow when compared to the existing potential market. This chapter presents the analysis of the problems existing in microfinance regulation from the perspective of the problems of OJK as a new institution that has full authority in licensing, regulating and supervising the microfinance sector. This paper was also analysing the problems of microfinance institutions and micro bank by using SWOT analysis. In this chapter, the author also provides recommendations on appropriate policy for MFI & micro banking to support SMEs in Indonesia.

Chapter Six: This chapter focuses on research results and statistical analysis on the respondent's perception and expectations related to microfinance in Indonesia to support SMEs Business. This chapter focuses on the analysis of The Financial Inclusion/Financial Literacy and Financial Access SMEs Businessman about Microfinance. This chapter also analyses the perception and expectations about Microfinance in Indonesia to support SMEs Business. Information was received from questionnaire distributed to respondents on financial inclusion of SMEs businessman, problem and challenges on financial inclusion *(exclusion access, condition exclusion, price exclusion, self-exclusion, marketing exclusion)*, and perception on SMEs businessman about the role of microfinance in improving SMEs business. This research uses variable financial inclusion, financial access, public policy, credit loan lending, additional services banking, and small and medium enterprises development.

Chapter Seven: This chapter focuses on the strategy to develop microcredit loan for SMEs in Indonesia through financial inclusion. This chapter provides a systematic assessment of the national strategy for financial inclusion in Indonesia for SMEs microcredit, comparative financial inclusion between Indonesia and ASEAN Countries, and presents a recommendation on the strategy for the development of micro credit lending for SMEs in Indonesia through financial inclusion.

Chapter Eight: Finally, this chapter provides a summary of the findings of the study. The author gives recommendations on the strategies for the development of microfinance for SMEs business in Indonesia through additional services improvement.

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GLOSSARY OF WORDS

ADB	: Asian Development Bank
AEC	: ASEAN Economic Community
BI	: Central Bank of Indonesia
BKD	: Badan Kredit Desa (Village Credit Agencies)
BPR	: Bank Perkreditan Rakyat
BRI	: Bank Rakyat Indonesia
CAR	: Capital Adequacy Ratio
CBRC	: China Banking Regulatory Commission
DPK	: Dana Pihak Ketiga / Third-Party Funds
FDC	: The Foundation for Development Cooperation
FSA	: Financial Services Authority
GCG	: Good Bank Governance
GDP	: Gross Domestic Product
GVC	: Global Value Chain
IMCC	: International Management Communications Corporation
KUR	: Kredit Usaha Rakyat/ People's Business Credit
MFI	: Microfinance Institutions
MRA	: Microcredit Regulatory Authority
NGO	: Non-government Development Program.
OJK	: Otoritas Jasa Keuangan/ Financial Services Authority
PBC	: People's Bank of China
PKSF	: Palli Karma- Sahayak Foundations
PPAF	: Pakistan Poverty Alleviation Fund
RoSCAs	: Rotating Savings and Credit Associations
RBI	: Reserve Bank of India
ROA	: Return on Asset
SBP	: State Bank of Pakistan

SMEs   : Small, Medium Enterprises Business
WTP   : Willingness to pay

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Arisan   : in Indonesia is Rotating Savings and Credit Associations

Overview of This Research

LITERATUR REVIEW & DATA COLLECTION (Secondary Data)

Data from Central Bank Indonesia, Central Statistic Indonesia, Ministry of Finance The Republic of Indonesia, Bank Rakyat Indonesia (The Largest Micro Finance Bank in Indonesia), Ministry of Cooperative & Small Enterprise The Republic of Indonesia, OJK/Otoritas Jasa Keuangan (Financial Services Authority), Literature Review & Online Data → World Bank, IMF, Milken Institute, etc

| THE HISTORY OF MICROFINANCE IN INDONESIA | MARKET OPPORTUNITIES AND MICROFINANCE REGULATIONS FOR SMEs IN INDONESIA | MICROFINANCE BUSINESS COMPETITION FOR SMEs IN INDONESIA | ESTABLISHMENT OF OJK AS FINANCIAL SERVICES AUTHORITY FOR MICROFINANCE IN INDONESIA | ANALYSIS OF THE PROBLEMS OF MICROFINANCE INDUSTRIES FOR SMEs IN INDONESIA |

Analysis — Analysis — Analysis — Analysis

Primary Data trough Field Survey (Interview)

RESPONDENTS' PERCEPTION AND EXPECTATIONS ABOUT MIKROFINANCE IN INDONESIA TO SUPPORT SMEs BUSINESS

Statistical Data Analysis use software SPSS and *smartPLS* (Smart-*Partial* Least Square)

Determine effective strategies to develop Microfinance for SMEs based on potential market, socio-economic condition in Indonesi.

Determine appropriate policies for develop microfinance for SMEs in Indonesia

Conclusion and Recommendation for Appropriate Strategy to Develop Microfinance for SMEs in Indonesia

Research Overview
THE STRATEGY TO DEVELOP MICROFINANCE FOR SMEs IN INDONESIA
By: Devi Erna Rachmawati

CHAPTER ONE

INTRODUCTION

1.1   Research Background

Microfinance has developed considerably rapid over the last two decades. Since the success of the program introduced by the Grameen Bank Muhammad Yunus (Nobel Peace Prize winner in 2006) in Bangladesh in 1980, the world's financial institutions began to give great attention to microfinance in reducing poverty and also make a profit.

Based on the data published by the Microcredit Summit Campaign in 2012, as many as 1,746 micro-finance program has been carried out and reached about 169 million clients in 2010 for Asia-Pacific region alone. This area is a sector that has the highest number of poor people. Meeting the standard of a given program, Micro Finance Institution (MFI) reached 68.8%, in other words from about 182.4 million poor people of the region, and there are 125.53 million who have access to micro-finance (Microfinance Summit Campaign Report, 2012, p. 39).

The existence of micro-enterprises demonstrates the spirit of entrepreneurship among the people who could be the pioneer of renewal. Recognizing the reality of people's economic development focusing primarily on the micro business is strategic to achieve broad-based development or development through equity.

The financial institution has the function as an intermediary in economic activity. If the role is running well, then the financial institution can generate added value. Therefore, the efforts to improve people's income one can be done in a productive manner by utilizing the services of intermediation of financial institutions, including the productive efforts undertaken by the poor.

Indonesia is one of the world's biggest archipelagic country. Situated between two continents, i.e. Asia and Australia/Oceania, it has a total of 17,508 islands. This strategic location has a significant influence towards its culture, social conditions,

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politics, and economy. Total population in Indonesia is 257,563,815 people, with the total GDP of $861,9 billion, GDP growth 4.79%, and inflation 6.36 % [1].

After the financial crisis of 1997-1998, poverty alleviation became one of the first priorities of the government to engage in wide-range of economic reforms, which also sought to reduce growing income disparities between people and between regions. Indonesia is one of the developing countries that successfully run sustainable microfinance in a relatively large scale. For example, Bank Rakyat Indonesia (BRI) unit network is now the largest and one of the most profitable rural micro banking networks in the developing world. Therefore, this makes microfinance in Indonesia an interesting research subject from which we hope to learn some best practices in Indonesia.

Indonesia has a potential market for the development of microfinance through micro business enterprises with more than 57.1 million, representing some 98.77% of 57,900,787 total unit of all businesses (big, medium, and micro businesses) in Indonesia and contributing no less than 59% of GDP growth in 2015. Despite this progress, the Central Bank of Indonesia reported in July 2016, Indonesia still finds only 14 million who have formal accounts for microcredit. Indonesia has approximately one hundred million people who cannot, or do not have access to financial services. Currently, many of the SMEs business do not have adequate access to the bank financing they need to grow their businesses, particularly in rural areas. To that end, Bank Indonesia issued a rule that requires banks to have at least 20% of their loan portfolio dedicated to microloans by 2018 opening up new opportunities to further grow the sector[2].

The slow pace of reform in the regulatory and legal environments also deters growth in the microfinance sector. In 8th January 2013, the Government of Indonesia finally makes new regulation on Microfinance Institutions through Law Act No 1, 2013. This rule gives full authority to "Otoritas Jasa Keuangan" or OJK as a Financial Services Authority Institution to make regulations, licensing, and supervisions of microfinance in Indonesia. The role of OJK as a Financial Services Authority Institution is necessary for the development of micro banking and MFIs to give finance access for the micro business sector and poor people. Expected to help the government program to

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[1]   Based on data from World Bank, 2015.
[2]   Based on the Central Bank Indonesia Regulation number 14/22/PBI/2012 Article 2.

economic growth and reduce poverty in Indonesia, OJK As New Financial Services Authority Institution has challenges to develop microfinance in Indonesia. Therefore, it needs appropriate strategy to improve microfinance in Indonesia for sustainable development of microfinance sector in Indonesia.

The aims of this study are to analyse and discusses the market opportunities and regulation system microfinance for SMEs in Indonesia. Besides that, study about microfinance business competition for SMEs in Indonesia, the Indonesian policy about microfinance, analysis of the problem microfinance Industries for SMEs in Indonesia. Research and analysis how the financial inclusion, perception, and expectation of SMEs Businessman on Microfinance in Indonesia to support their business are also the relevance of this study. Based on this research, the author makes the strategy to develop Microfinance for SMEs in Indonesia.

The author hopes this research dissertation can provide useful Information on the development of microfinance through potential SMEs Business market, and give recommendations for policy makers to microfinance and other stakeholders to make better decisions to development microfinance in Indonesia and others country.

1.2   About Microfinance

The definition of Microfinance is broader as compared to microcredit. In addition to microcredit, microfinance also includes other value-adding activities like the provision of business and financial advice, and also the provision of savings and insurance services. Microfinance is explained about the 'inferiority' or limitations, namely the inferiority of the poor who are difficult or have limited access to financial services/banking[3].

Some definitions of microfinance are as follows:

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[3]   The definition of Microfinance from Asian Development Bank, Microfinance has many definitions but there is no standard definition of the microfinance, except that all relate to the activities of financial services for the poors who have limited access when dealing with formal financial institutions. Although some different argument, microfinance can be a powerful way to reduce poverty and promote economic development (e.g., Littlefield et al. 2004; Goldberg, Nathanael 2005; Appah, Ebimobowei 2012).

- International Management Communications Corporation (IMCC): *Microfinance as a set of techniques and methods of non-traditional bank to open access to the widest sector untouched formal financial services*[4].

- The Foundation for Development Cooperation (FDC): *microfinance as the provision of financial services, especially savings and loan for poor households who do not have access to formal financial institutions*[5].

- Asian Development Bank (ADB): *Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises*[6].

- Marguerite S. Robinson : *microfinance as a small-scale financial services, especially credit and savings provided for those who are engaged in agriculture, fisheries or farms; who manage small or micro businesses that include production, recycling, repair or trade; providing services ; who work for wages or commissions; who derives income from/ by way of lease land, vehicles, livestock personnel, or equipment and machinery; and to individuals or groups in both rural and urban areas in developing countries*[7].

Microfinance can be powerful way to increase income poor people through development micro business and promote economic growth. Each type of microfinance service can deliver social and economic benefits. Payment services allow poor households and small businesses to transfer money in a faster, safer, and easier way than cash payments. Not only do the payment services create a platform for households and small businesses to forge a formal relationship with microfinance institutions, but they also help clients build a credit history, which is critical to further utilization of financial institutions. Loan services increase household income and can provide people with better living conditions, health care, and education. Loans can also help build

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[4]   Retrieved from International Management Communications Corporation (IMCC) retrieved from https://www.devex.com

[5]   Retrieved from The Foundation for Development Cooperation (FDC) http://fdc.org.au

[6]   Retrieved from Asian Development Bank (2000). Finance for the poor: Microfinance Development Strategy, page 2.

[7]   Retrieved from Robinson, Marguerite S, The Microfinance Revolution, Volume 2" Lessons from Indonesia, The World Bank Washington DC, Open Society Institute, New York.

household assets by enabling business investments that can generate returns. Savings and insurance services help households better manage cash flow and protect them from unexpected financial hardships. Just the knowledge that these services are available can provide peace of mind, which may help people make better decisions in the future.

Several studies have demonstrated that there is still an unmet demand for microfinance services, as a majority of rural households still do not have access to a source of funds from a semi-formal or formal institution. The regulated microfinance providers, BRI Units[8], and BPRs[9], tends to cover mostly the upper levels of the microenterprise market, in the district and sub-district towns, with loans of more than Rp. 3 million (US$320)[10], while NGOs, cooperatives, and village-based institutions village-based institutions – Badan Kredit Desa (BKDs) [11] – reach a lower end of the market but still have a limited outreach in rural areas.

1.3   Definition of Microcredit

Microcredit involves the loan of a small amount (typically USD 10) of money made by the poor. It is characterized by group lending, rigorous monitoring, and progressive loan lending to lower the risks of default and to reduce the cost monitoring and administration. Through creating group lending can reduces the risks of default, the reasons are the peer selection process by group members ensure that trustworthy and creditworthy individuals are admitted into the group[12]. Progressive lending means that borrowers are given increased borrowing limits after they establish the creditworthiness of their clients very quickly. Progressive credit lending means that borrowers are given increased borrowing limits after they build a good credit record of timely repayments.

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[8]   BRI Unit is BRI (Bank Rakyat Indonesia) office in some region in Indonesia.
[9]   BPR is Bank Perkreditan Rakyat/ Rural Bank in Indonesia.
[10]   Retrieved from INSEAD P4 Assignment, Bramono Dewi, Chung Ming, Eom Yoonmi, and Yenn Khan Kevin LAM (2003) Microfinance in Indonesia, page 5.
[11]   Rural Credit Agency (BKD) is a village-owned company that operates in the region of villages administered as a separate company and apart from other property belonging to the village concerned.
[12]   Retrieved from INSEAD P4 Assignment, Bramono Dewi, Chung Ming, Eom Yoonmi, and Yenn Khan Kevin LAM (2003) Microfinance in Indonesia, page 3.

Hence progressive credit lending provides an incentive for borrowers to repay their loan on time so that they would be eligible for increased loan amounts.

According to the definition used in the Microcredit Summit (2012), it is a micro-credit lending program amounted to little to the poorest to finance the project the person is working on their own in order to generate income, allowing them to care for themselves and their families, *"programmes extend small loans to very poor for self-employment projects that generate income, allowing them to care for themselves and their families"* [13].

Microcredit is defined by Cental Bank of Indonesia as the loan below IDR 50 million ($ 4,310). The financial product is provided by formal and semi-formal financial providers in Indonesia[14].

Microcredit Loan Lending is the lending of small amounts of money at low interest for individual or group from bank or microfinance institution (non-bank), in my research especially lending money for SMEs (Small Medium Enterprises) Businessman to a start-up their company and to develop their business (author definition, 2016).

1.4   Global Condition

Despite growth in the global economy over the last few decades, a large percentage of the population remains poor, particularly in the developing world. In developing countries, as much as three-fifths of the total labour force subsists on less than $2 a day, and one in five people lives below the extreme poverty line of $1.25 a day. While indigence has diminished significantly in recent decades, extreme poverty still exists (Figure 1.1) shows percentage of population living in extreme poverty in the world (Milken Institute, 2016. "Sustainable Microfinance in Asia", page 1).

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[13]   Retrieved from : http://www.microcreditsummit.org , access 11 August, 2016
[14]   Definition Microcredit based on Law Act No 14/22/PBI/2012 Central Bank Indonesia, Microcredit, and Finance Regulation and Technical Framework in Micro, Small and Medium Enterprises.

Percentage of Population Living in Extreme Poverty in The World
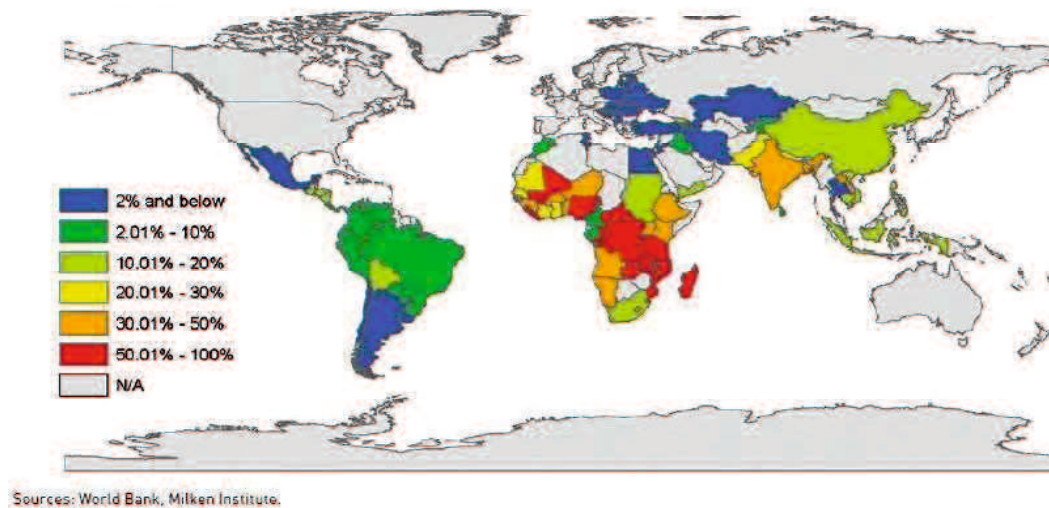
Figure 1.1 Percentage of Population Living in Extreme Poverty in The World[15]

Microfinance providing affordable financial services to the poor – is a powerful tool for reducing poverty. The United Nations has advocated microfinance as one means of helping to achieve the Millennium Development Goals, a project aimed at reducing extreme poverty and hunger (e.g., Hulme and Mosley 1996; Khandker 2005).

Although microfinance has been implemented across the globe, the gap between the supply of financial services for the poor and the demand for them remains large: The World Bank estimates that about three-fifths of the globe's lower-income people (the bottom 40 percent) do not have an account at a formal financial institution in 2015[16]. This gap suggests a need for more aggressively developing the microfinance sector.

Asia is home to the lion's share of today's poor. In 2010, about 63 percent of the world's extreme poor lived in East Asia and the Pacific (246 million) as well as in South Asia (507 million). This population forms an immense client base for microfinance, which has not gone unnoticed. Collectively, East Asia and the Pacific, as

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[15] Retrieved Milken Institute, (Januari 2016)"Sustainable Microfinance in Asia", page 1.
[16] Data World Bank Development Research Group Finance and Private Sector Development Team, (April 2015). The Global Findex Data Base 2014, Measuring Financial Inclusion around the world, page vi.

well as South Asia, have the most microfinance institutions (MFIs) among the world's six developing regions (Africa; East Asia and the Pacific; Eastern Europe and Central Asia; Latin America and the Caribbean; Middle East and North Africa; and South Asia). Only a tiny portion of the total demand has been met. For example, in Bangladesh, a — microfinance pioneer — only about one-third of the extreme poor were active borrowers from microfinance institutions in 2011. In other words, Asia still has a large, untapped market for microfinance. The percentage of poor people living in Indonesia is 11.37% of the population. Approximately only 0.2% of the population in Indonesia is considered as micro financial active borrowers on microcredit and small-scale businesses to earn a living[17].

1.5 Microfinance in Indonesia

1.5.1 The History of Microfinance in Indonesia

Indonesia has a relatively long microfinance history, especially commercialized microfinance. As mentioned, by the end of the 19th century Indonesia had already established the Indonesian People's Credit Banks, or the Bank Rakyat Indonesia (BRI), now one of the largest microfinance systems in Indonesia. It was also one of the first Asian countries to develop large-scale commercial microfinance systems. In 1907, Indonesia established the Rural Credit Organization, or Badan Kredit Desa (BKD) — village-owned banks offering microcredit on commercial terms. Today the BKD offers microloans commercially under the supervision of the People's Bank of Indonesia, or Bank Rakyat Indonesia (BRI), a major commercial bank that provides rural micro-banking networks through sub-branches, called Unit Desa, at the sub-district level. While both large commercial banks and smaller regulated financial institutions play significant roles in Indonesia's microfinance industry, non-formal institutions such as cooperatives, NGOs, and rotating savings and credit associations also make considerable contributions to the sector. In recent years, some NGOs and other MFIs have ventured into commercial microfinance with their own small regulated financial institutions (Pramono Dewi, Chung Ming, Eom Yoonmi, and Yenn Khan Kevin LAM,

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[17]   Data from Microfinance Exchange Market, 2013, retrieved from https://www.themix.org

2003, Microfinance in Indonesia, page 5). Table 1.1 shows the summary of microfinance in some representative Asian countries.

Table 1.1 Summary of microfinance in some representative Asian countries

Country	History (starting from)	MFIs' penetration rate (active borrowers to the extreme poor population)	ROA and main sources of funding	Regulatory authorities
Bangladesh	1970s	Relatively high (32.5%)	ROA: Relatively high (3.67%) Sources of funding: Equity, deposits, Palli Karma-Sahayak Foundations (PKSF) funding, debt	Microcredit Regulatory Authority (MRA)
China	1990s	Very low (0.4%)	ROA: Low (1.07%) Sources of funding: Government funding, international grants, deposits, People's Bank of China (PBC) funding	People's Bank of China (PBC), China Banking Regulatory Commission (CBRC)
India	1960s	Low (6.7%)	ROA: Low or moderate (-10.1% in 2011; an average of 2.67% for 2005- 2010) Sources of funding: Debt, commercial banks funding, government funding, grants	Reserve Bank of India (RBI)
Indonesia	1890s	Very low (1.2%)	ROA: Relatively high (4.03%—among the highest in selected Asian countries) Sources of funding: Debt, commercial banks funding	Bank Indonesia (BI), Financial Services Agency (OJK)
Pakistan	1950s	Low (5.2%)	ROA: Low (0.46%) Sources of funding: Grants, donor funding—Pakistan Poverty Alleviation Fund (PPAF), commercial banks funding, deposits	State Bank of Pakistan (SBP)

Note: GDP data are as of 2012; poverty data as of latest-available years ranging from 2008 to 2011; other data as of 2011 taken from the Microfinance Information Exchange Market.
Sources: Microfinance Information Exchange Market, International Monetary Fund, World Bank, Milken Institute

Finally, Indonesia has also a long history of informal credit and savings schemes, comprising Rotating Savings and Credit Associations (RoSCAs) or Arisan in Indonesian, and other forms of traditional finance[18]. Rotating Savings and Credit Associations (RoSCAs) or Arisan still exist in Indonesia. However, most of these schemes have limited outreach and sustainability prospects.

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[18]   Retrieved from INSEAD P4 Assignment, Bramono Dewi, Chung Ming, Eom Yoonmi, and Yenn Khan Kevin LAM (2003) Microfinance in Indonesia, page 6.

The majority of Indonesia's microloans are lent for profit through formal institutions such as the BRI units[19] and BPRs[20]. While Indonesia's microfinance has been largely commercialized, the average ROA of the nation's MFIs was 4.03 percent in 2011, one of the highest for Asian countries and a benchmark for other Asian nations to meet. BRI units have been recognized as The biggest and the best micro banking system in the world, the Grameen Bank is the best social banking system, the difference lies in the ability to mobilize public funds, and commercial business activities are healthy without subsidies for micro banking as it has been BRI-Unit indicated [21].

The central bank, Bank Indonesia, recently relinquished its banking supervision role to a new independent financial institution, the Financial Services Authority, or Otoritas Jasa Keuangan (OJK). The rural banks are still supervised by BRI branches and cooperatives under the direct supervision of the Ministry of Cooperatives and SMEs. Today, financial regulations in Indonesia are relatively liberalized. Banks and other financial institutions are free to set interest rates on loans and do not face excessive documentation and capital adequacy ratios. Therefore, this study will be beneficial for the development of microfinance in Indonesia for the future.

1.6   Organization of the Dissertation

Chapter one of this dissertation presents the study background and discusses some relevant issues of development microfinance in Indonesia, the definition of microfinance and microcredit, global condition issues and the history of microfinance in Indonesia. This chapter also discusses and analyses the summary of microfinance in some representative Asian countries. This chapter presents about research methodology, explain the purpose of this study and why it is an interesting subject matter to be analysed, which is how the projected development of the SMEs microfinance industry in Indonesia is for the future. Analytical methods are performed with the qualitative and

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[19]   See Reference 8 page 5.
[20]   See Reference 9 page 5.
[21]   Milken Institute (2014). Sustainable Microfinance in Asia, *Landscape, Challenges and Strategies*, page 15

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quantitative method, research data collection, research questionnaire indicator, research flowchart, and then followed by the benefit of this research.

Chapter two focuses on analysis, discussion and provides a systematic assessment of market opportunities and regulations microfinance for SMEs in Indonesia. Based on social economic, demographic conditions, Microfinance Industry for SMEs in Indonesia, market segmentation, market penetration, this chapter gives information about fiscal policy and economic increasing role of SMEs and people's business credit program for SMEs. It also discusses the analysis of comparative history in microfinance industry and selected Asian countries, Indonesia economic growth, statistic ratio between Indonesia and selected Asian countries on microfinance. This chapter gives information on new regulations microfinance in Indonesia and concludes with presenting a recommendation about strategy of improvement role function OJK to development microfinance through training & social program for SMEs in Indonesia

Chapter three focuses on the analysis and gives information about micro business competition between Conventional Banks and Rural Banks/BPR, development of SME's credit in Indonesia, the challenges, and opportunities for financing SMEs. The author gives recommendations for Conventional Banks and Rural Banks/BPR to improvement services for SME's customer and make recommendations the strategy to development SMEs business through improvement additional services for Microcredit customer to ensure fair competition and stability of the micro-financial industry in Indonesia.

Chapter four presents a systematic assessment of historical and Microfinance Institutions supervision monitoring system. This chapter describes information about historical establishment of the OJK, vision and mission of OJK, regulation and supervision monitoring system of microfinance institutions in Indonesia from the perspective Law Act, No. 1 of 2013 and Law Act No. 14/POJK.05/2014, comparative supervision monitoring microfinance with another country and concludes with an analysis the impact establishment of OJK for MFIs and presenting a recommendation strategy of improvement supervision and monitoring system through integration of stakeholders for sustainable SMEs and Microfinance Institutions in Indonesia.

Chapter five focuses on an analysis of microfinance problem in Indonesia. Indonesia has a long history of microfinance, but the development of microfinance is still slow when compared to the existing market potential. This chapter presents the analysis of the problems of the existing microfinance regulation from the perspective of the problems OJK as a new institution that has full authority in licensing, regulations and supervisions of the microfinance sector. This paper also analysis the problems of Microfinance Institutions and Micro Bank by using SWOT analysis. The author provides recommendations for problems solving of microfinance in Indonesia and improvement policy for MFI & Micro banking to support SMEs in Indonesia.

Chapter six focuses present research results and analysis on respondents perception and expectations about microfinance in Indonesia to support SMEs business. This chapter focuses on the analysis of how the financial inclusion/financial literacy and financial access SMEs businessman about microfinance. This chapter also analyse the perception and people's expectations about microfinance in Indonesia to support SMEs business. Get information use questioner from respondent about financial inclusion SMEs businessman, problem and challenges financial inclusion (exclusion access, condition exclusion, price exclusion, self-exclusion, marketing exclusion), perception of SMEs businessman about the role of microfinance to improve SMEs' business. This research uses the variables of credit lending, small and medium enterprises development, additional services banking, financial inclusion.

Chapter seven focuses on the strategy to develop microcredit loan for SMEs in Indonesia through financial inclusion. This chapter provides a systematic assessment of the national strategy for financial inclusion in Indonesia for SMEs microcredit, comparative financial inclusion between Indonesia and ASEAN countries, and presents a recommendation on the strategy for the development of Micro credit lending for SMEs in Indonesia through financial inclusion.

Finally, chapter eight is a summary of the findings of the study, some recommendations on the strategies for the development of microfinance for SMEs Business in Indonesia through additional services improvement.

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1.7 Research Methodology

1.7.1 Purpose of Research

This research is an interesting subject matter to be analysed, as it investigates how the projected development of the microfinance for the SMEs industry in Indonesia is for the future. The purposes of this research are the followings:

a. To identify and analyse the potential of the market of microfinance to SMEs' business in Indonesia.

b. To know about the business competition for microfinance for SMEs' business in Indonesia.

c. To know about the role, regulation, and supervision monitoring system of microfinance institution for SMEs in Indonesia.

d. To identify and analyse the problems and challenges in the development microfinance for SMEs in Indonesia.

e. To identify and analyse how the access/financial literacy the SMEs' businessman is on microfinance financial in Indonesia.

f. To measure and analyse how the effect of microfinance is on the success of SME business in Indonesia.

g. To make appropriate strategy to develop microfinance for SMEs' business in Indonesia.

1.7.2 Methods of Research

Analytical methods are performed using qualitative and quantitative methods of:

a. Indonesia's competitiveness against some countries in the competitive landscape of the global economy.

b. The projection growth of various economic and demographic factors that affect the growth rate of the national microfinance industry.

c. Data about microfinance from Central Bank of Indonesia (BI), Bank In Indonesia (BRI/*Bank Rakyat Indonesia*, the largest microfinance bank in

Indonesia) and non-bank microfinance in Indonesia (The Fund and Credit Institution), Ministry of Economic Affair of the Republic of Indonesia, Ministry of Cooperatives, Small and Medium Enterprises of the Republic of Indonesia, *Badan Statistik Indonesia* or Statistics Indonesia, Ministry of Finance of The Republic of Indonesia, OJK/*Otoritas Jasa Keuangan* or Indonesia Financial Services Authority, World Bank, International Monetary Fund, Milken Institute.

Theoretical and empirical analysis are performed by considering the condition of the national and global position of a basic framework or argument in building a strategic agenda for the future of SMEs' industry microfinance in Indonesia associated with the development of the national economy.

1.7.2.1 Data Source

This research used data collection from interview and questionnaire, and this research took the data source from:

a.   Secondary data

- Data report from Central Bank Indonesia

- Central Statistic Indonesia

- Ministry of Finance of the Republic of Indonesia

- Central Bank Indonesia

- Bank Rakyat Indonesia (The Largest Micro Finance Bank in Indonesia)

- Ministry of Cooperative & Small Enterprise of the Republic of Indonesia

- OJK/*Otoritas Jasa Keuangan* (Financial Services Authority)

- Literature review & online data → World Bank, IMF, Milken Institute.

b.   Primary data

Survey methods with personal/face to face interviews and questionnaire.

Interview participants are:

-   Financial Services Authority/Otoritas Jasa Keuangan (OJK) of the Republic of Indonesia

-   Board of Directors of Bank BRI.

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- SMEs' businessman in Solo Area, Central Java, The Government of Indonesia, where the questionnaire is about:

    1. Perception on the financial inclusion for SMEs' businessman, problem and challenges of financial inclusion *(exclusion access, condition exclusion, price exclusion, self-exclusion, marketing exclusion)*.

    2. Perception of SMEs' businessman on the role of microfinance to improve business SMEs.

    3. Perception on the current condition that involves credit lending, small and medium enterprises development, additional services banking, financial inclusion, microfinance policy for SMEs in Indonesia.

    4. Their expectations about the appropriate policy and strategy to support SMEs' business in Indonesia.

1.7.2.2 Questionnaire Indicator

This research use the following questionnaire indicators:

a. Microfinance financial access for SMEs *(access exclusion, price exclusion, self-exclusion, marketing exclusion)*. How is the financial education, product knowledge about microfinance in Indonesia, the benefit, problem and challenges in the use of microfinance products to improve SMEs' business, the level of microfinance interest and satisfaction of the services and microfinance product for SMEs, requirement of microfinance access for SMEs, financial inclusion.

b. Microcredit loan lending for SMEs

c. SMEs development business

d. Additional services banking. How are the provision of information and networking market, access and assistance or training program, capacity building in information technology, access, and infrastructure, intermediation facilities, convenience services utilizing microfinance product for SMEs, customer protection or insurance

j. Government policy. (SMEs' businessman expectations about the policy and role government to support SMEs' business in Indonesia).

Research Flow Card

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                          ┌─────────────────────┐
                          │  Research Methode   │
                          └─────────────────────┘
                                    │
        ┌───────────────────────────┴───────────────────────────┐
        │                                                         │
┌─────────────────┐   Data from Central Bank Indonesia,      ┌─────────────────┐
│  Qualitative    │   Statistics Indonesia, Ministry of       │  Quantitative   │
│  Methode        │   Finance of the Republic of Indonesia,   │  Methode        │
└─────────────────┘   Bank Rakyat Indonesia (The Largest      └─────────────────┘
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Data from Central Bank Indonesia, Statistics Indonesia, Ministry of Finance of the Republic of Indonesia, Bank Rakyat Indonesia (The Largest Micro Finance Bank in Indonesia), Ministry of Cooperative & Small Enterprise of the Republic of Indonesia, OJK/*Otoritas Jasa Keuangan* (Financial Services Authority), Literature Review & Online Data → World Bank, IMF, Milken Institute.

Qualitative Methode

Data from Micro Bank in Indonesia, Central Bank Indonesia, Bank Rakyat Indonesia (The Largest Micro Finance Bank in Indonesia), World Bank

Data from Non Bank Institution, Microfinance Institution, Statistics Indonesia, Ministry of Finance of the Republic of Indonesia, Ministry of Cooperative & Small Enterprise of the Republic of Indonesia, OJK (Financial Services Authority), Milken Institute, etc

Quantitative Methode

Interview

Library Studies, Literature Review

Policy Maker on Microfinance in Indonesia

SMEs' businessman

Journals, Scientific Paper, Internet Data, Media, etc

Data Process

Theoretical Study

Statistik Data Process

Empirical Study: Statistical software SPSS for windows program and SEM non parametric, using PLC program or rather Smart-PLS (*Smart-Partial Least Square)*

Analysis

Conclusion

Reference

Publication

Diagram 1.1 The Diagram of Research Flow Card

1.7.3   Hypothesis for Empirical Study

The empirical study on chapter seven used quantitative method analysis to measure:

a.   How the relationship and the influence of additional services banking to small and medium enterprises development.

b.   How the relationship and the influence of credit loan lending to additional services banking.

c.   How the relationship and the influence of credit loan lending to small and medium enterprises development.

d.   How the relationship and the influence of financial access to credit loan lending.

e.   How the relationship and the influence of financial access to small and medium enterprises development.

f.   How the relationship and the influence of financial inclusion to credit loan lending.

g.   How the relationship and the influence of financial inclusion to small and medium enterprises development.

h.   How the relationship and the influence of public policy to credit loan lending.

i.   How the relationship and the influence of public policy with small and medium enterprises development.

This research used *Path Analysis (Hypothesis Testing Structural Model)* commonly referred to mediation. A structural path analysis with a more complex level (Multi-dimension), using the statistical program SEM/Structural Equation Model nonparametric (Component Based SEM), using software or application Smart PLS (Smart-Partial Least Square) v3. SEM/Structural Equation Model nonparametric model does not only test the variable course, but there is also a relationship testing variable with the dimensions of one of the variables directly

1.7.4 Benefits of Research

The benefits of this research are:

a. To realize that the microfinance industry is robust and healthy and can make a significant contribution in supporting the economic growth in Indonesia by SMEs' business.

b. Provide information on how opportunities and the development of microfinance for SMEs' business in Indonesia.

c. Provide Information on how the challenges to the development microfinance for SMEs' business in Indonesia.

d. Provide information on how the effective and appropriate strategy for the development of microfinance for SMEs in Indonesia.

e. Provide useful information and insights to the policymakers of microfinance and other stakeholders, so they can make better decisions that will inform the development of microfinance through potential SMEs' business market in Indonesia and throughout the world.

CHAPTER TWO

MARKET OPPORTUNITIES AND

MICROFINANCE REGULATIONS FOR

SMEs IN INDONESIA

2.1 Introduction

Indonesia is a country with a population of over 257 million covering an expanse of 17,508 islands[22]. Indonesia is one of the G20 members in Southeast Asia. Indonesia is renowned for its large-scale microfinance sector, with a range of commercial banks and over 60,000 MFIs reaching more than 50 million people[23].

Indonesia has a potential market to develop microfinance through micro business enterprises with more than 57.1 million, representing some 98.77% of the 57,900,787 unit total of all businesses (big, medium, and micro businesses) and contributing no less than 59% of GDP growth in 2015[24]. Despite this progress, the Central Bank of Indonesia's report in July 2016 shows that there are 14 million people in Indonesia who have had formal accounts for microcredit. Indonesia has approximately one hundred million people who cannot, or do not, access financial services of any kind across a vast and diverse economy. Currently, many of these do not have adequate access to the bank financing they need to grow their businesses, particularly in rural areas. To that end, Bank Indonesia issued a rule that requires banks

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[22] Based on data from World Bank, 2015.
[23] See An Outlook on Indonesia's Microfinance Sector. Retrieved http://www.gbgindonesia.com/en/finance/article /2013/an_outlook_on_indonesia_s_microfinance_sector.php
[24] Based on data from Ministry of Cooperatives and Small and Medium Enterprises Republic of Indonesia Report and Data from the presidential staff report, 2015.

to have at least 20% of their loan portfolio dedicated to micro loans by 2018, opening up new opportunities to further grow the sector[25].

Indonesia has a relatively long microfinance history, especially commercial microfinance. At the end of the 19th century, precisely in 1895, Indonesia had already established the Indonesian People's Credit Banks now is called as the Bank Rakyat Indonesia (BRI)[26]. Indonesia has microfinance potential market, but the strict regulations and high interest rates have hampered efforts to the development of microfinance and forcing poor people to be trapped by unscrupulous moneylenders. Demographic conditions in Indonesia is a challenge for micro banking that is still not able to reach the whole rural community in Indonesia. Therefore, the role of MFIs in Indonesia is highly important to reduce poverty in the country.

The slow pace of reform in the regulatory and legal environment also deters growth in the microfinance sector. On 8th January 2013, the government of Indonesia finally make new law regulation on Microfinance Institutions. This rule gives full authority to the *"Otoritas Jasa Keuangan"* or OJK as a Financial Services Authority Institution to make regulations, licensing, supervisions microfinance in Indonesia[27]. The role of OJK as a Financial Services Authority Institution highly important for development of micro banking and MFIs to give finance access for micro business sector and poor people and expected to help the government program for the economic growth and reduce poverty in Indonesia.

The indicators of success on microfinance are not only reflected from the economic growth of a country, but also influenced by other factors such as social economic, demographic conditions, regulations microfinance[28]. Therefore, it is important to know about these conditions. The study in chapter two provides a systematic assessment of microfinance based on existing key reports on social economic conditions, potential SMEs Industry, market segmentation, market penetration and how

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[25] Based on the Central Bank Indonesia Regulation number 14/22/PBI/2012 Article 2.
[26] Retrieved http://ir-bri.com/ , access 15 December 2016
[27] Law Act Financial Services Authority The Government of Indonesia no 1 of 2013, about regulations, licensing, supervisions microfinance.
[28] Some studies suggest that the factors influencing the sustainability of microfinance institutions is the financial regulations in the country and the geographical coverage and reach, which is the study of Lawrence. Kimando N. et al, Factors Influencing the Sustainability of Micro-Finance Institutions in Murang'a Municipality, International Journal of Business and Commerce, 2012.

regulations microfinance in Indonesia. This chapter provides information on the new regulations of microfinance in Indonesia and concludes with presenting recommendation strategy of improvement role function OJK to the development of microfinance through training & social program for SMEs in Indonesia.

2.2 Indonesia's Potential for SMEs Microfinance Market

Indonesia was one the first countries to develop commercial microfinance in Asia[29]. Indonesia has a total population of over 257 million[30] and the total of poor people in Indonesia reached 28.51 million or 11.37 percent[31], but MFI's penetration rate/active borrowers to the extreme poor population is only 1.2% (very low). This case shows that the market share of micro-finance for the poor people in Indonesia is still quite large. Therefore, it takes a government policy through appropriate regulation to reduce poverty through micro finance by enhancing the role of MFIs. Table 2.1 shows the comparative history of starting microfinance industry and MFIs penetration rate (active borrowers to the extreme poor population).

Table 2.1. Comparative history of microfinance industry, MFIs penetration rate (active borrowers to the extreme poor population) Indonesia and selected Asian countries.

Country	History Microfinance (starting from)	MFIs' penetration rate (active borrowers to the extreme poor population)
Bangladesh	1970s	Relatively high (32.5%)
China	1990s	Very low (0.4%)
India	1960s	Low (6.7%)
Indonesia	1890s	Very low (1.2%)
Pakistan	1950s	Low (5.2%)
Philippines	1960s	Low (2.0%)

Sources: Sustainable Microfinance in Asia, Landscapes, Challenges and Strategies, Milken Institute, January 2014.

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[29] See BWTP Asia Resource Centre for Microfinance. Retrieved http://www.bwtp.org/arcm/indonesia/ I_Country _Profile/CountryProfile_Indonesia.pdf.
[30] Based on World Bank Data, 2015.
[31] Based on Statistics Indonesia, 2015.

Micro banking market in Indonesia is still highly potential. An example of a bank that first developed microcredit is BRI, one of the commercial banks in Indonesia that consistently support business developments of micro enterprises through BRI Microfinance System Unit. BRI has a total of micro loans of up to Rp. 178.94 trillion with micro loans grew 15.58% in 2015 and micro loan NPL at only 1.13%[32]. Figure 2.1 shows the market share of BRI of loan at the end of 2015, which is 29.5% from other commercial banks. Currently, BRI serves its customers through 9,808 operating units and e-channel network spreading across Indonesia[33], but the bank only concentrated in Java and Sumatra. It is a challenge for BRI to improve services for micro banking in the remote rural area within Indonesia.

Figure 2.1 Market Share of BRI
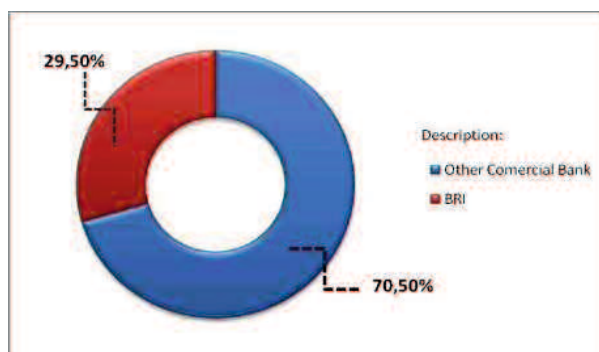
Source: Annual Report of BRI, 2015

The challenges in the development of BRI Unit is the global market competition and the micro banking industry competition in Indonesia. In the current situation, many conventional banks begin to open the micro product to take advantage of the large microeconomic market opportunities, such banks are Bank Danamon and Bank Mandiri.

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[32] Based on Data from Annual Report of Bank Rakyat Indonesia (BRI), 2015.
[33] Data based on Annual Report of BRI in 2015.

The high micro banking interest rates in January 2015 for micro effective interest rate of 22% per year is considered heavy by the micro enterprises[34]. It is one challenge with the presence of non-bank microfinance institution, especially cooperative. This makes micro banking competition to become increasingly fierce but the market is still a big potential for micro business in Indonesia and it opens the opportunity for BRI unit and other commercial banks in Indonesia to develop micro banking products. BRI must develop BRI Micro Unit to remote villages, especially outside Java, which still serves as considerable development opportunities. BRI must be more creative to develop micro products and maximize assistance or training business management to micro enterprises like what Grameen Bank does in Bangladesh and has been successful with micro banking.

Analysis of potential microfinance market in Indonesia can be seen through the perspective of economic growth, socio-economic conditions, the potential of SMEs industry, microfinance market segmentation, and market penetration. Those will be discussed in the following sections.

2.2.1 Indonesia Economic Growth.

Economic growth is the most fundamental indicator of an economy's health, the rate at which national income is growing. It is measured by the annual percentage rate change in a nation's gross domestic product (GDP)[35]. In general, economic growth is an indicator commonly used to see the progress or the ability of a country. Economic growth can be a powerful indicator to measure the success of a poverty reduction program. Now, in addition to economic growth, the focus on poverty reduction has become the basic objectives of development in Indonesia.

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[34] Based on data national team accelerated poverty reduction the Government of Indonesia, 2015. Maximum Effective Interest Rate Kredit Usaha Rakyat/KUR in January 2015. In 2016 The government reduce Effective Interest Rate KUR KUR to 12%, but the government policy start from 1 January 2017 maximum Effective Interest Rate will be 22%. KUR is the government of Indonesia program for micro business credit, source retrieved http://www.tnp2k.go.id/id/tanya-jawab/klaster-iii/progam-kredit-usaha-rakyat-kur/, access 15 December 2016

[35] Sally Bolton and Stefanie Khaw Economic Growth opinion. Retrieved http://www.theguardian.com /business/2006/jul/10 /ukeconomy.globalrecession.

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Currently, Indonesia wants to develop poverty reduction program through microfinance, it is associated with the role of the microfinance institution, SMEs and empowerment efforts on the micro level. Therefore, SMEs in Indonesia should focus on accelerating economic growth, which in turn can absorb labour. In this context, the role of MFIs is very important, such as the cooperatives in Indonesia should be involved in economic growth and poverty reduction. Microfinance institutions must provide training and assistance to the micro entrepreneurs and poor people, and together with government work together for the development of micro finance to provide training and social program and to support government programs for poverty reduction and economic growth. Figure 2.2 presents the statistic ratio between Indonesia and global gross domestic product (GDP) from 2004 to 2017 (Data from Statistic Indonesia, Central IMF and World Bank).

Figure 2.2 Indonesia and Global Economic Growth Forecast[36]
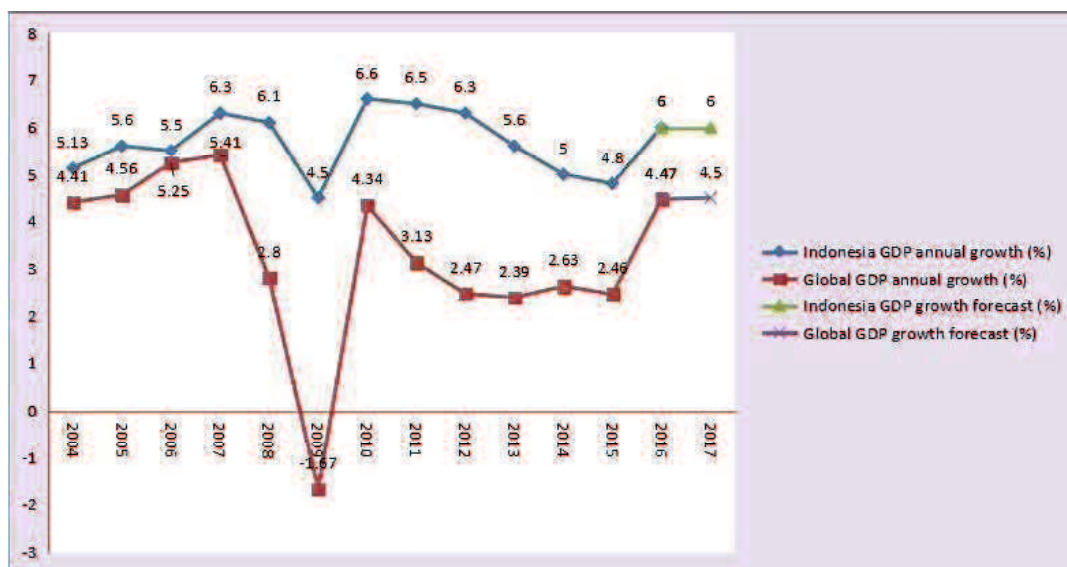
Source: Indonesia and global economic growth forecast by Author calculation based on:

     a. Statistics Indonesia (BPS) Indonesia
     b. IMF
     c. World Bank

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[36] Annual growth the global GDP data are as of 2004-2015 taken from world bank data; Annual growth Indonesia GDP data are as of 2004-2015 taken from Statistics Indonesia (BPS) Indonesia; Forecast growth Indonesia and global GDP data are as of 2014-2017 taken from IMF World Economic Outlook, April 2015.

Target Indonesia's economic growth in 2017 is 6%. Indonesia Gross Domestic Product (GDP) per capita over the last 10 years is constantly increasing, and this indicates that the level of income of the people of Indonesia is increasing. However, currently people's income increase has not been followed by a pattern of good financial management. Data from central statistics, people's desire to save money due to the increase in revenue (marginal propensity to save) tends to decline during the period 2003-2015. In contrast in the same period the public desire for consumption (the marginal propensity to consume) tend to increase. Based on the National Survey of Financial Literacy by OJK Indonesia in 2013, the level of financial literacy amounted to 21.84%, or only about one-fifth of the population of Indonesia which has a well literate category. This condition need the role of OJK as Financial Services Authority Institution in Indonesia to develop training program about financial literacy. Table 2.2 presents statistic ratio between Indonesia and selected Asian countries on microfinance (Microfinance Information Exchange Market, International Monetary Fund, Word Bank, Milken Institute, Statistics Indonesia, 2015).

Table 2.2 Statistic ratio between Indonesia and selected Asian countries on Microfinance[37]

Country	2015 GPD growth rate (%)	Population living on below PPP $1,25 a day (%)	MFI Active borrowers to total population (%)	Precent of female borrowers (%)	ROA (%)	Average loan balance per borrower ($)
Bangladesh	6.6	43.3	14.1	93.6	3.67	134
Cambodia	7.0	18.6	9.2	77.3	4.04	1.170
China	6,9	11.8	0.04	77.1	1.07	23.254
India	7.6	32.7	2.2	95.9	-10.12	163
Indonesia	4.8	11.37	0.2	86.8	4.03	289
Nepal	3.4	24.8	2.6	98.5	2.44	250
Pakistan	5.5	21.0	1.1	61.2	0.46	156
Philippines	5.8	18.4	3.4	91.5	3.19	200
Sri Lanka	4.8	4.1	2.9	77.7	1.92	355
Vietnam	6.7	16.9	10.1	61.2	-2.74	610

Source: by Author based on data from Microfinance Information Exchange Market, International Monetary Fund, Word Bank, Milken Institute, Statistics Indonesia.

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[37] GDP data are as of 2015; proverty data as of latest-available years ranging from 2009 to 2012 taken from the world bank data; other data as of 2011 taken from the Microfinance Information Exchange Market and proverty data from Statistics IndonesiaStatistics Indonesia 2015.

In Indonesia, approximately only 0.2% of the total population in Indonesia are having the role as micro financial active borrowers on microcredit and small-scale businesses to earn a living. If compared with other countries such as Bangladesh, the country with a successful microfinance program, it has active borrowers of 14.1 percent from the total population and GDP growth of 4.8 percent in 2015. The Grameen Bank is a bank that puts micro-credit for the poor, in Bangladesh it is pioneered by Muhammad Yunus. In 1976, Muhammad Yunus launched a micro-credit to poor people in Bangladesh. Micro-credit is also the origin of the formation of the Grameen Bank in Bangladesh. The system adopted by the Grameen Bank is a system of trust and kinship, and without any letter of agreement, as it has to be with other conventional banks. Grameen Bank is not applying sanctions for its customers if they do not return the money. Therefore, it is a true realized system of trust, The system adopted by the Grameen Bank is different with any conventional existing banking system. This is a bold breakthrough applied by Muhammad Yunus in overcoming poverty and famine in Bangladesh.

Micro-credit method is successful in overcoming the problem of poverty in Bangladesh. This is evidenced by the increasing economic growth in Bangladesh. This is different from the current situation in Indonesia where many microfinance institutions, both non-banks, and micro banks, prefer to get profit although the government has planned programs of poverty alleviation through the development of micro finance.

2.2.2 Social Economic and Demographic Conditions in Indonesia

Indonesia is one of the world's biggest archipelagic countries. It is situated between two continents, Asia and Australia/Oceania. It has a total of 17,508 islands. This strategic location has a significant influence towards its Culture, Social conditions, Politics, and Economy. The total population in Indonesia is 257,563,815[38]. Based on Statistics Indonesia, the total percentage of male in Indonesia in 2015 is 50.35% or 129.69 million people and the total percentage of female is 49.65% or 127.8 million

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[38] Based on Statistic Indonesia and World Bank Data, 2015

people. The potential market to develop a microcredit system as has been done successfully by Grameen Bank in Bangladesh, may provide credit to the poor and is given to groups of households.

Indonesia has 250 million mobile subscribers, with 143 million unique mobile subscribers enabling the poorest people to have access to reliable financial transactions. This is potential market can be used to improve services to develop microfinance products in Indonesia. Muslim population in Indonesia is 88% of the total population of 253 million. The data from the Central Bank of Indonesia shows Islamic banking assets has tripled, increasing to an average of 31.5% annually in 2015. This is a potential market to develop Islamic microfinance because for some muslims, an interest rate is seen as *"Riba/Usury"* and is not allowed in the religion of Islam. Therefore, Indonesia develops the systems Islamic/Sharia Microfinance and microbanking with an investment and revenue-sharing system. Islamic microfinance or Shariah-compliant microfinance plays an important role in Indonesia as the largest Muslim majority market in the world[39].

Most micro lending are located in the urban areas of Java and Sumatra, where the Indonesian population is concentrated. The density of the population in Indonesia is concentrated in Java, with the densest population living in the capitol city of Jakarta. Java is a very potential market for developing microfinance in Indonesia. Based on the poverty line in Indonesia, poverty is found in some islands in Indonesia, among others, on the island of Java, Sumatra, Sulawesi, West Nusa Tenggara, East Nusa Tenggara, and the highest percentage of poverty is in Maluku and Papua[40]. These islands are where the potential market to develop microfinance by providing training and social program for poverty alleviation programs in Indonesia. Figure 2.3 shows poverty condition in Indonesia from 1976 until 2015.

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[39] See the Outlook for Indonesia's Islamic Banking Sector, Global Business Guide Indonesia. Retrieved http://www.gbgindonesia.com/en/finance/article/2013/the_outlook_for_indonesia_s_islamic_banking _ sector .php.
[40] Poverty Distribution Data by Statistic Indonesia,2015.

Figure 2.3 Poverty in Indonesia (1976-2015)
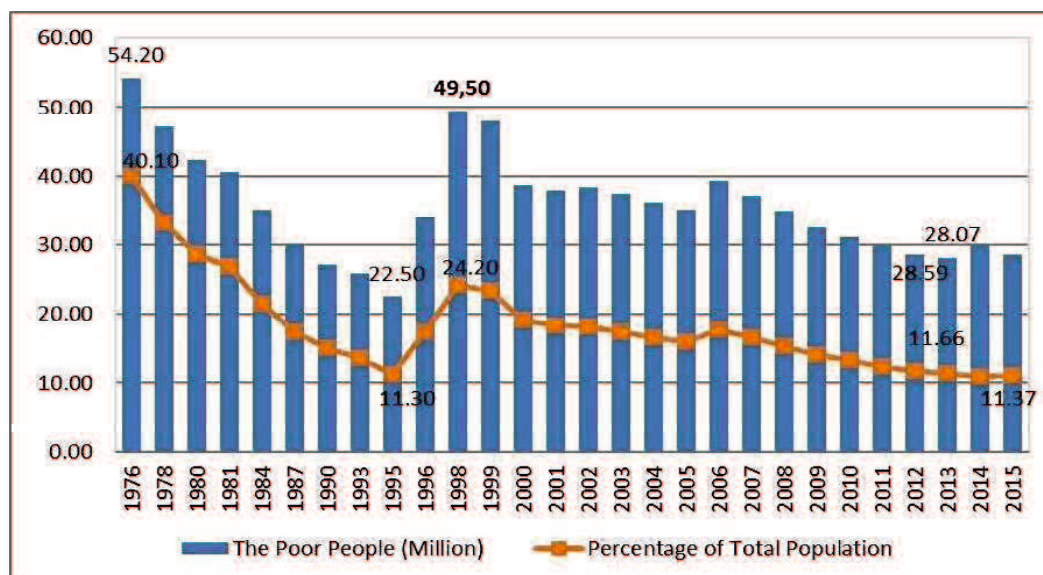
Source: by Author based on Statistics Indonesia, 1976-2015

The role of MFIs in Indonesia becomes a critical factor in an effective poverty reduction efforts. The increase in access to and provision of storage facilities finance and insurance can efficiently build the empowerment of the poor people and develop a micro-business activities.

Without adequate access to MFIs, SMEs in Indonesia will depend on the ability of financing themselves, very limited financing and depend on informal financial institutions such as moneylenders or middlemen. This condition would also limit the ability of the poor to participate in and benefit from development opportunities. Poor groups who generally live in rural areas and strive in the agricultural sector are supposed to be empowered so that they can get out of the cycle of poverty. So, need improvement Financial Literacy for poor people and SMEs businessman especially in Rural Area. Current situation in Indonesia's social program for poor people is still limited to giving direct cash, but the empowerment assistance and social program to training and education on micro business or financial literacy for poor people is still not enough. This condition needs the role of Financial Services Authority Indonesia to create the regulation to enhance the role of MFIs in helping the government to reduce

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poverty through training or assistance for micro business and poor people in Indonesia. However, the OJK as a new Financial Services Authority Institution has not created the regulation on this matter.

2.2.3   Microfinance Industry for SMEs in Indonesia

Finance access for SME sector and the development of the micro banks and microfinance institutions become important in order to boost the economic growth in Indonesia. Local government's efforts to develop the sector of SMEs would have a direct impact on improving the living standards of the poor people and income distribution in the region, which in turn can improve the economic growth in Indonesia. Therefore, it becomes important efforts to improve SMEs' access to sources of capital, particularly of the microfinance sector. Figure 2.4 shows the percentage of Industry in Indonesia.

Figure 2.4 Percentage of Industry in Indonesia
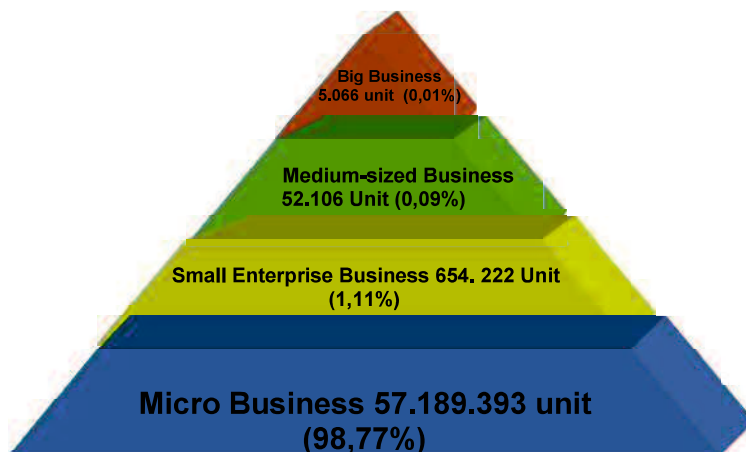
Source: by Author based on Ministry of Cooperatives, Small and Medium Enterprises, the Republic of Indonesia Annual Data Report (2015)

Based on a survey report from the Ministry of Cooperatives and Small and Medium Enterprises Republic of Indonesia, in 2015 the total of micro business industry

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is 57,189,393 or 98.77% of the total business industry in Indonesia with a total of all business in Indonesia around 57,900,787 units. This condition is potential as a market to develop microfinance with the empowerment of micro business in Indonesia (Ministry of Cooperatives and Small and Medium Enterprises Republic of Indonesia Annual Data Report, 2015).

Based on the data from the Central Bank of Indonesia monthly data report in July 2016, according to most business classification, SMEs' loans disbursed micro credit loans amounted to 25.2% (see figure 2.5). This suggests that micro business lending is still considerably low compared to the potential microfinance market in Indonesia. This condition is a challenge for micro banking with the high level of interest rates, which is considered heavy by micro business. This calls for the role of OJK as a new Financial Authority Services Institution in Indonesia to make regulation about maximum interest rate for micro business in line with the government program to improve economic growth in Indonesia.

Figure 2.5 Percentage of SME Lending in July 2016
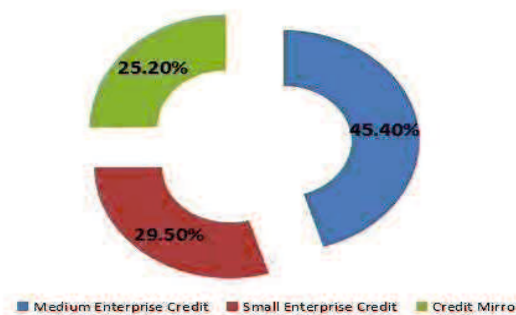
Source: by writer based on Central Bank of Indonesia's Monthly Data Report, July 2016

2.2.4 Microfinance Market Segmentation

Based on the data reported by the Central Bank of Indonesia in July 2016, the bank account growth of SMEs as a whole was recorded to 14 million and approximately 80 percent of Indonesia's poor do not have access to formal financial institutions.

Market segmentation for microfinance in Indonesia for households are divided into 2 groups which are self-employed and employee segments. Figure 2.6 shows the mass segmentation of microfinance in Indonesia. The customer of the mass market segment in Indonesia is comprised of poor people, micro business and household with the income of 5-150 IDR million per annum, there are around 50 million households in Indonesia. This suggests that the market is potential for microfinance and shows effort to expand access to financial institutions by the lower layers of society (financial inclusion) becomes very important in Indonesia.

Figure 2.6 Mass Segmentation Microfinance in Indonesia[41]
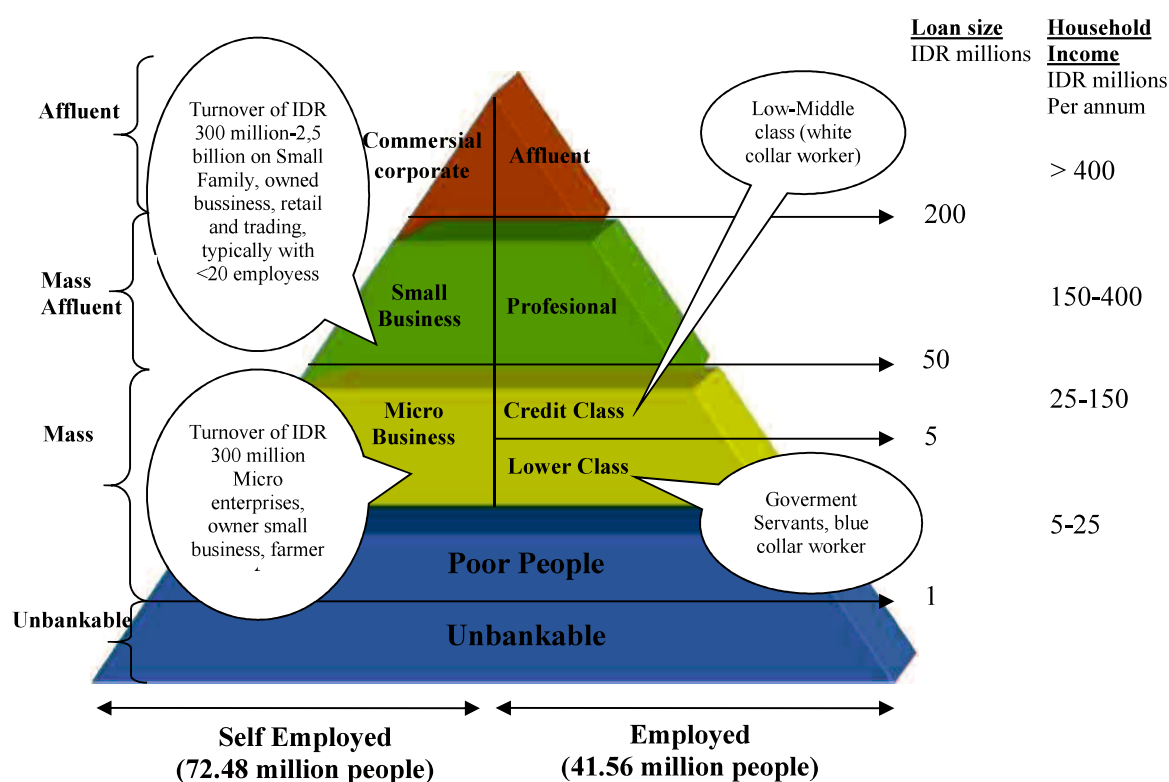
Source: Author

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[41] Author's improvement from the analysis of Adimarwan, Karim, Trust-Based Microfinance in Indonesia, Foromic Arequipa Peru, 2009. In the analysis, Adimarwan Karim did not classify poor people into the mass market, while Indonesia has a potential market of the poor, especially in rural areas are still many unreached by microfinance.

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2.2.5 Microfinance Market Penetration

Market penetration is the comparison of the current market versus the potential market demand of products. Based on calculation, the market penetration for rural area product is 2.27% (Author calculation based on Statistics Indonesia/BPS, 2013). This indicates current lack of access condition to microfinance for poor people specially in the rural area in Indonesia, so it needs the role of MFIs to develop microfinance in rural area product with assistance or training and education program for microfinance customer. Table 2.3 shows the demand and supply calculation for the outreach of microfinance for poor people in rural area Indonesia.

Table 2.3. Demand & supply analysis outreach of microfinance for poor people in rural area of Indonesia (as of 2016)

Country	Population	Poverty head-count 11.07%	Number of poor people (P)	Number of Poor in rural Area (H)	Potential Market (70%) (M=H*0.7)	Active Borrowers (10%)	Market Pene-Tration = P/M (%)
Indonesia	257.563.815	11.07	28.513.570	17.893.710	12.525.597	1.252.559	2.27

Source: Author calculation based on Statistics Indonesia (BPS), 2016

Based on the calculation, the market penetration for microfinance industry in Indonesia is 1.3%. This indicates current condition where there are still many micro businesses that do not have microfinance access for their businesses. This is due to the high level of interest and considered by micro enterprises are heavy, and yet the business management training for micro customer has not been maximised. Therefore, role of OJK as new Financial Services Authority Institution to make regulation to stimulate MFIs to develop micro business with social and training program is needed. Table 2.4 shows the demand and supply calculation for the outreach of microfinance industry in Indonesia.

Table 2.4 Demand & supply for the outreach of microfinance industry for Micro Enterprises in Indonesia (as of 2016)

Country	Micro Enterprises (ME)	Active Borrowers /The number of credit micro account (H)	Potential market (M=ME-H)	Market Penetration = ME/M (%)
Indonesia	57.189.393	14.250.388	42.939.005	1.3

Source: Author calculation based on Central Bank of Indonesia's Data, July 2016, for active borrower and Total Micro Enterprises from Ministry of Cooperatives, Small and Medium Enterprises, the Republic of Indonesia 2015

2.3 Fiscal Policies to Increase SMEs

In September 2015, the government issued a package of economic policy to boost the national economy. One of the points of the policy was aimed at the empowerment of Micro, Small and Medium Enterprises (SMEs). The government provides interest subsidy in export financing through the Indonesian Export Financing Agency (LPEI) and the program's Business Credit (KUR). The facility enables SMEs to obtain low-interest loans, from 22-23 percent to 12 percent[42].

The Government is committed to increase economic independence and competitiveness in the international market. Provision of facilities through the KUR program and LPEI improves the ability of SME capital. In line with this, the Government Work Plan for 2016 includes improving the competitiveness of SMEs, including the development target dimensions of equity between income groups[43]. Table 2.5 shows the Criteria for SMEs based on Law Act No 20 of 2008 on SMEs.

Table 2.5 Criteria for SMEs Based on Law Act No. 20 Year 2008 on SMEs

Business communities	Net Worth (Rupiah) [44]	Results of Annual Sales (Rupiah)
Micro	Up to 50 million	Up to 300 million
Small Business	50 - 500 million	300 million - 2.5 billion
Medium Business	500 million - 10 billion	2.5 billion - 50 billion

Source: Law Act of the Government of Indonesia No 20 Year 2008 on SMEs

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[42] See Reference 34, page 23
[43] Law Act of The Government of Indonesia No 20, 2008 on SMEs
[44] The reduction in the total value of business property with a total value of liabilities, excluding land and buildings.

SMEs Business is one of the strategic sectors of the economy national. This is reflected in the employment by the SME sector. Statistics Indonesia (BPS) Data in 2012 put the number of workers in the SME sector amounted to 107.6 million workers or about 97 percent of the number of workers in Indonesia. Most of the workers are in the Micro business reaching up to 90 percent.

2.3.1 KUR (Kredit Usaha Rakyat/People's Business Credit) program for SMEs

Currently, Indonesia is faced with the open market of the world economy. This condition opened up market access and increased revenue (foreign exchange). This situation affected the domestic economic actors, including the SME sector. The SME sector is driven to connect with Global Value Chain/GVC and increase contribution to economic growth[45]. On the other hand, increasing the involvement of SMEs in the GVC is still facing capital and marketing constraints.

To overcome the problem of SMEs to capital, the government supports financing facilities from banks. MSME Support is implemented through budget allocations provision of credit guarantees in KUR.

2.4   Regulation for Microfinance in Indonesia

The Law Act 21 of 2011 about *Lembaga Otoritas Jasa Keuangan* or OJK as a Financial Services Authority Institution makes Indonesia to have a new independent agency regarding regulation and supervision that are integrated to the overall activity in the financial services sector. The establishment of OJK makes the power and authority possessed by the Central Bank of Indonesia (BI) to move to OJK. The Central Bank of Indonesia will be more responsible in dealing with macro-prudential supervision that focuses on the stability of the financial system by mitigating systemic risk. OJK is authorized in dealing with micro-prudential supervision that focus on the health of individual banking institutions. The formation of the OJK gives high hopes to the

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[45] United Nations, (2010). Integrating Developing Countries SMEs into Global Value Chains, New York and Geneva pp 29-42.

Indonesian government, the Financial Services Industry community, and in general the Indonesian society. Starting in January 2014, the Central Bank of Indonesia provides authority to supervise the banking sector including the micro banking sector.

The Law Act No. 1 of 2013 gives full authority to the OJK in licensing, regulating, and supervising MFIs. The current challenges for OJK are the many types and kinds of MFIs in Indonesia. Therefore, it is difficult for OJK to monitor and it needs efforts to develop MFIs. With the integration regulation and supervision of MFIs, the data and information related on MFIs in Indonesia are expected to have better access, but until now OJK has not been able to determine how many MFIs in Indonesia in real terms. The challenge OJK faces as a new Financial Services Authority Institution requires a long time for the transfer process of the previous supervisory agencies, such as the transfer of cooperative whose implementation will begin in 2015 and several other financial institutions such as the BMT[46]. that still needs a long time to take data collection and design clear regulation. Besides that, for the future, OJK must develop a program such as training & social program for microenterprises and poor people and another program in line with the focus and expectation of the government that the establishment of OJK can help the government in economic growth and reduce poverty through microfinance sector.

2.4.1 Microfinance Institution Regulation

Microfinance Institutions (MFIs), referring to Act 1 of 2013 on Microfinance Institutions, are defined as a special financial institution established to provide business development services and community empowerment, either through loans or financing to micro enterprises and community members, the management of deposits, as well as the provision of consulting services for business development which is not solely for profit. The definition implies that the MFI is an institution that is also working for social motive. It is more related to community development activities without prejudice to its

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[46] Definition by OJK/ Otoritas Jasa Keuangan the Government of Indonesia, Baitul Mal Wattamwil (BMT) is the Micro Finance Institutions operated with Principles for profit share, support small and micro enterprises business, to elevate and dignity as well as defending the interests of the poor people, according to with the operating principles of the Islamic Sharia.

role as a financial intermediary. As a financial institution that serves as intermediary institutions, MFIs are also conducting savings and loans, which activities are in addition to providing loans, but also required to provide awareness to the public saving, especially for low-income communities.

Law Act POJK.05 of 2014 is a new Regulation from OJK that concerns the licensing of Business and Institutional Microfinance Institutions. Article 2 states that the legal status of Microfinance Institution is cooperative or Limited Liability Company. Limited Liability Company is specialized to at least 60% of its shares owned by local government/district/city or village-owned enterprises, while the rest of the limited liability company shares can only be owned by citizens of Indonesia or cooperatives. The amount of paid-in capital or principal payments are set at a minimum:

a. IDR 50 million, - (fifty million rupiah) for the business area coverage villages/wards.

b. IDR 100 million, - (one hundred rupiah) for coverage of the districts.

c. IDR 500 million (five hundred million rupiah) to the coverage area of the business district/city.

Licenses are produced for a period of 60 days after all of the procedures are declared complete.

2.4.2 Micro Banking Regulation

The Regulation of Bank Indonesia Number 14/22/PBI/2012 describes financial micro banking regulation in the provision of micro-credit and technical assistance in the development of micro, small and medium and also explains the criteria for financing SMEs in Indonesia. In Indonesia, the transaction value of microfinance is only defined at the micro-credit limit of only the maximum of 50 million. As for other financial transactions such as savings, insurance, remittance, payment systems, there is no clear regulation.

New Regulation from OJK Act 20/POJK.03/2014 about the establishment of Micro Banking Rural Bank, mentions that the legal Rural Bank is Limited Liability Company, where Cooperative and Regional Company may only be owned by

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Indonesian citizens, Indonesian Legal Entity or Local Government, paid-up capital to establish minimum BPR:

a. IDR 14 billion (fourteen billion rupiah) for Zone 1 area coverage.

b. IDR 8 billion (eight billion rupiah) for area coverage zone 2.

c. IDR 6 billion (six billion rupiah) for area coverage zone 3.

d. IDR 4 billion (four billion rupiah) for area coverage zone 4.

The Zones are determined based on the economic potential of the region and the level of competition of financial institutions in the district or city concerned. Challenges of OJK as new Financial Services Authority Institution are to make clear regulation about saving, micro insurance, remittance, and payment systems, because until now there is no clear regulation. The summary of type and regulations of microfinance in Indonesia can be seen in Table 2.6.

Table 2.6. Type and Regulations Microfinance in Indonesia

	Type Microfinance in Indonesia	Regulatory Low Act	License Regulation	Supervision Regulation	Deposit Insurance Agency
Bank	Bank BRI Unit (BRI Special for Micro Credit)	The Bank Act No 10/1998	Bank Indonesia, the Central Bank	BRI Branches, *Bank Indonesia for BRI as a Whole (Commercial Bank) New Role: **After 1 January 2014 based on Ac No 21/2011 about OJK supervision by** Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	Has Deposit Insurance Agency, has guarantee for secure customer
	Rural Bank (BPR/BPR Syariah)	The Bank Act No 10/1998 (People Credit Bank, or Rural Bank, with private, local government or cooperative ownership)	Bank Indonesia, the Central Bank **After 1 January 2014 based on Act 20/POJK03/2014 License Regulation by** Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	The Central Bank Act No 23/1999 **After 1 January 2014 based on Ac No 21/2011 about OJK supervision by** Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	Has Deposit Insurance Agency, has guarantee for secure customer
	Commercial Banks for Micro Credit (like as Mandiri Unit Micro, Danamon Credit Micro etc)	The Bank Act No 10/1998 (Commercial Banks, government & Provate government & Provate Banks (BPDs))	Bank Indonesia, the Central Bank	The Central Bank Act No 23/1999 **After 1 January 2014 based on Ac No 21/2011 about OJK supervision by** Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	Has Deposit Insurance Agency, has guarantee for secure customer
	Village Credit Board (Badan Kredit Desa =BKD)	The Bank Act No 10/1998 (Village Credit institutions)	Act POJK.05/2014 Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	BRI on behalf of Bank Indonesia **After 1 January 2014 based on Ac No 21/2011 about OJK supervision by** Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	Has Deposit Insurance Agency, has guarantee for secure customer
Non Bank — **Formal**	Cooperatives (KOSIPA), credit unions	Cooperative Act No 25/1992	KSPs & USPs, (incl Syariah, lso credit unions. Subject to Cooperatives Act. State Ministry of Cooperative & Small Enterprise	Cooperatives Act. State Ministry of Cooperative & Small Enterprise. **on process next in 2015** regulation and supervision by Otoritas Jasa Keuangan (OJK)	Did not has Deposit Insurance Agency, not has guarantee for secure customer
	LDKP (The Funds and Credit Institution)	Government Act No 1/2013	Act POJK.05/2014 Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	supervision by Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	Did not has Deposit Insurance Agency
	Pawnshops Perum Pegadaian	Owned by the government	Owned by the government	Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	Did not has Deposit Insurance Agency
Non Formal	Informal Development Financing Institutions: NGOs, unregistered MFIs, Self-help groups	NGOs, MFIs, BMT (syariah) Self-help groups.	NGOs, MFIs, BMT (syariah) Self-help groups. Specialy new BMT license regulation Act No 1/2013 by Otoritas Jasa Keuangan (OJK)	NGOs, MFIs, BMT (syariah) Self-help groups. **on process next supervision by** Otoritas Jasa Keuangan (OJK) as Financial Services Authority Institution	Did not has Deposit Insurance Agency

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2.4.3 Comparative of microfinance regulatory authority in Indonesia with other countries.

The fundamentals economic problem in Indonesia is an internal challenge in the form of a gap which is characterized by the presence of unemployment and poverty. Meanwhile, the external challenge is improving the competitiveness of the era of free trade. Establishment of OJK as a Financial Services Authority Institution has been very precise with integrated Microfinance regulation and supervision, expected can develop MFIs and can help the government of Indonesia to encourage economic growth and reduce poverty. MFIs can be an instrument for government program to in alleviating poverty due to the development of micro enterprises/SMEs in the context of poverty reduction cannot be separated from the role of MFIs. While banks are not able to reach out to micro enterprises/SMEs, MFIs can provide financial support with appropriate characteristics to support micro enterprises. MFIs can help the government to alleviate poverty through community efforts to increase productivity and development micro enterprises in the rural level. MFIs has a function as an intermediary in an economic activity, and if it functions properly will produce added value. The function can be added by utilizing the services of intermediation of financial institutions, including the productive efforts made by the poor, so it can improve the income poor people. With the current phenomenon, it cannot be denied that the role OJK as Financial Services Authority Institution is highly important to make regulations in line with development of MFIs and the empowerment of MFIs is a prerequisite that must be met in order to develop a micro business aimed at reducing poverty in Indonesia.

OJK as a new Financial Services Authority Institution in Indonesia can learn and adopt the system from Bangladesh which was successful to alleviate poverty through microfinance. The government of Bangladesh has been promoting public sector microfinance programs with financial support from international financial institutions or agencies for poverty alleviation[47]. The enactment of the MRAA Microcredit Regulatory Authority Act in 2006 marked a major change in policy on NGO-MFIs. The regulation

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[47] See Microcredit and Proverty Allevation : The Best Practice in Bangladesh . Retrieved from http://saarc-sec.org/uploads/document/Bangladesh.

of microcredit activities of microcredit organizations in Bangladesh with a view to ensuring transparency and accountability of their operations requires NGO-MFIs to become LMFIs if they want to continue their operations and allows LMFIs to "provide various insurance services and other loans for social welfare purpose to the creditors and their family members[48]."

In Bangladesh, there are mainly four types of institutions involved in microfinance activities:

a)   Grameen Bank (GB)

b)   NGO-MFIs having licenses from Microcredit Regulatory Authority (MRA)

c)   Commercial and Specialized banks

d)   Government sponsored microfinance programs (e.g. through BRDB, cooperative societies and programs under different ministries).

Judging from the current situation where the condition of microfinance institutions in Indonesia did not have the Deposit Insurance Agency to give a secure guarantee for the customer, and many microfinance institutions have not been able to develop micro insurance products, so an active role from OJK is needed. The government of Indonesia through OJK as a Financial Services Authority Institution is expected to develop social programs or trainings and assistances to micro businesses and poor people by adopting a system from the Grameen Bank in Bangladesh, which has been successful with Poverty Alleviation through microcredit development. Besides Bangladesh, Pakistan and India also have an integrated regulatory system, while China's Regulatory authorities is performed by the People's Bank of China (PBC) and the China Banking Regulatory Commission (CBRC). Table 2.7 shows the Comparison of microfinance regulatory authorities in Indonesia and other countries.

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[48]   Retrieved from Policy and regulation for microfinance in Asia, The Foundation Development Cooperation, Banking Witrh The Poor Network, Citi Foundation, 2010

Table 2.7. Comparative microfinance regulatory authorities in Indonesia and with another country

Country	Regulatory authorities
Bangladesh	Microcredit Regulatory Authority (MRA)
China	People's Bank of China (PBC), China Banking Regulatory Commission (CBRC)
India	Reserve Bank of India (RBI)
Indonesia	Financial Services Authority Institution/Otoritas Jasa Keuangan (OJK)
Pakistan	State Bank of Pakistan (SBP)

Source: by writer based on data from Milken Institute, CGAP and Financial Services Authority Institution (OJK).

2.5 Improving Microfinance for SMEs in Indonesia

Poverty reduction can be carried out through a lot of tools and programs that are either directly or indirectly by encouraging micro business productive through the provision of microfinance loans (microcredit). In addition, OJK as a Financial Services Authority Institution need to create a blueprint of a structured design to develop MFIs and strengthen the MFIs in Indonesia. OJK also must strengthen the institutions by coordinating with all government institutions at central and local levels to provide guidance and oversight of the operational activities of MFIs in Indonesia. On the other hand, insurance for small communities is still constrained in terms of distribution, so that it will not touch those who generally live in rural areas. The absence of protection of the financial risk for low income people could potentially encourage people to fall into poverty in the event of a disaster. This is noteworthy considering the insurance company can prevent such thing from happening. Low-income people need micro-insurance products that provide benefits in accordance to their needs, with premiums that are accessible, easy to understand policy, and quick payment of claims. This becomes important because of the ease of access. For this condition, OJK is expected to gather data about insurance companies that have been providing micro insurance

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products. It is time for insurance to also become beneficial for the poor people in Indonesia. The duty and responsibility of OJK as Financial Services Authority Institution is to encourage MFIs to develop micro insurance products for MFIs in Indonesia. OJK must provide consumer protection. the OJK has the regulations of Law act No. 1/POJK.07/2013 on Consumer Protection Financial Services sector which explains the promotion policy in which the sale of products and services from MFIs should include the name or logo of MFIs and must be registered and supervised by OJK. However, until now the OJK has not cooperated with the Deposit Insurance Agency. This matter is a challenge for the future of the OJK to give a secure guarantee for micro finance customers in Indonesia.

The challenges of OJK to develop microfinance also include the social condition problems of the weak financial literacy of the Indonesian society, especially the poor people and micro businessman. Based on financial literacy survey in 2013, the national financial literacy levels are still relatively low, only 21.84%[49]. Lack of knowledge about the industry and finance products makes it easy for the community to become tempted in investment products that offer high returns in a short term without considering the risks. OJK needs to improve the microfinance market, make clear regulations and make program to implement business education and finance literacy with a mission to educate micro business/SMEs and poor people in microfinance, improving access to information and marketing microfinance through the development of supporting infrastructure for financial literacy. For the development of micro-finance in the future, OJK needs to develop training and social programs for micro businesses/SMEs and poor people, which are in line with the government's focus on reducing poverty through microfinance as has been done by other countries such as Bangladesh and India.

OJK must have a promotion program and appropriate strategies to reduce poverty alleviation. Indonesia needs an aggressive poverty reduction strategy. Current condition, social programs to alleviate poverty in Indonesia is merely a program of giving hard cash to the poor people. Training skills to open a small business/SMEs, marketing training and importance of money management and knowledge/financial

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[49] Indonesian National Strategy for Financial Literacy, The Government of Indonesia (2013), page 18.

education are rarely done by the Indonesian government. The support for micro enterprises also have not been able to reach the whole Indonesia. The program should support the increase of non-governmental organization ("NGO") participation in microfinance programs by permitting NGOs to conduct the full range of activities of a state-run microfinance program. The government can make cooperation with company in Indonesia through CSR Program. Such a move would help to ensure that microfinance services reach people with the least access to the formal financial sector.

Based on potential market in Indonesia, the author provides recommendations for OJK to implement the "model of development of microfinance in Indonesia" shown in Figure 2.7. Indonesia has potential market of poor people and micro business/SMEs business. Therefore, the role of OJK to make a clear regulation to develop service microfinance through training and social programs for micro business/SMEs business in line with focus the government to economic growth and reduce poverty in Indonesia is highly needed.

Figure 2.7. A model for the development of microfinance for SMEs in Indonesia

Source: Author

Potential market of mobile banking users in Indonesia will enable the poor people to have access to reliable financial transactions based on demographic locations in Indonesia with its total of 17,508 islands. To do so, microfinance development

program must be balanced with adequate infrastructure to take advantage of information technology such as mobile banking and provide the best service for micro banking customers for the future development of microfinance. Poverty reduction programs based on empowering micro businesses is a program that aims to provide access and economic empowerment for micro businesses. Important aspects of the reinforcement is to provide the broadest access to the poor to be able to try and improve the quality of life. However, OJK currently does not have any division training & social program to develop microfinance for micro-businesses/SMEs. Therefore, the author provides the recommendations to develop microfinance for micro-businesses/SMEs for the future using the training and social program coverage-based empowerment program group of micro enterprises in Indonesia, Figure 2.8 shows the recommendations.

OJK as a Financial Services Authority Institution in the future must have a special division in Training and social program to develop microfinance in Indonesia. Motivation and Training Program, Telecentres, Televillages and Telelearning, Peer Tutoring and Group Tutoring, Entrepreneurship Program, such as a short training talk are given on issues related to training in health, sanitation, clean environments, family planning, education, financial literacy, budgeting, and product development. Training is needed, not only at the beginning of a program, but throughout the life of the program and Assistance in motivating the SME businessman and women in the programs to make their repayments and to improve their income generating skills. Figure 2.8 shows the Strategy to improve the role and function of OJK to develop microfinance through training & social program for SMEs in Indonesia and to develop microfinance for the future.

Telecottages are community centres that have modern electronic communication facilities which enable the population to share resources in education, training, employment, social and economic development. To work effectively, the Telecottages need a community facility with telecommunications and information processing equipment so that the public can access them. The Telecottage concept was meant to benefit the local communities by providing services to local businesses and distance

working opportunities, and in some places have already provided local training facilities, open learning access points for distance education, and expanded social networks[50].

Figure 2.8 Strategy to improve the role and function of OJK to develop microfinance through training & social program for SMEs in Indonesia
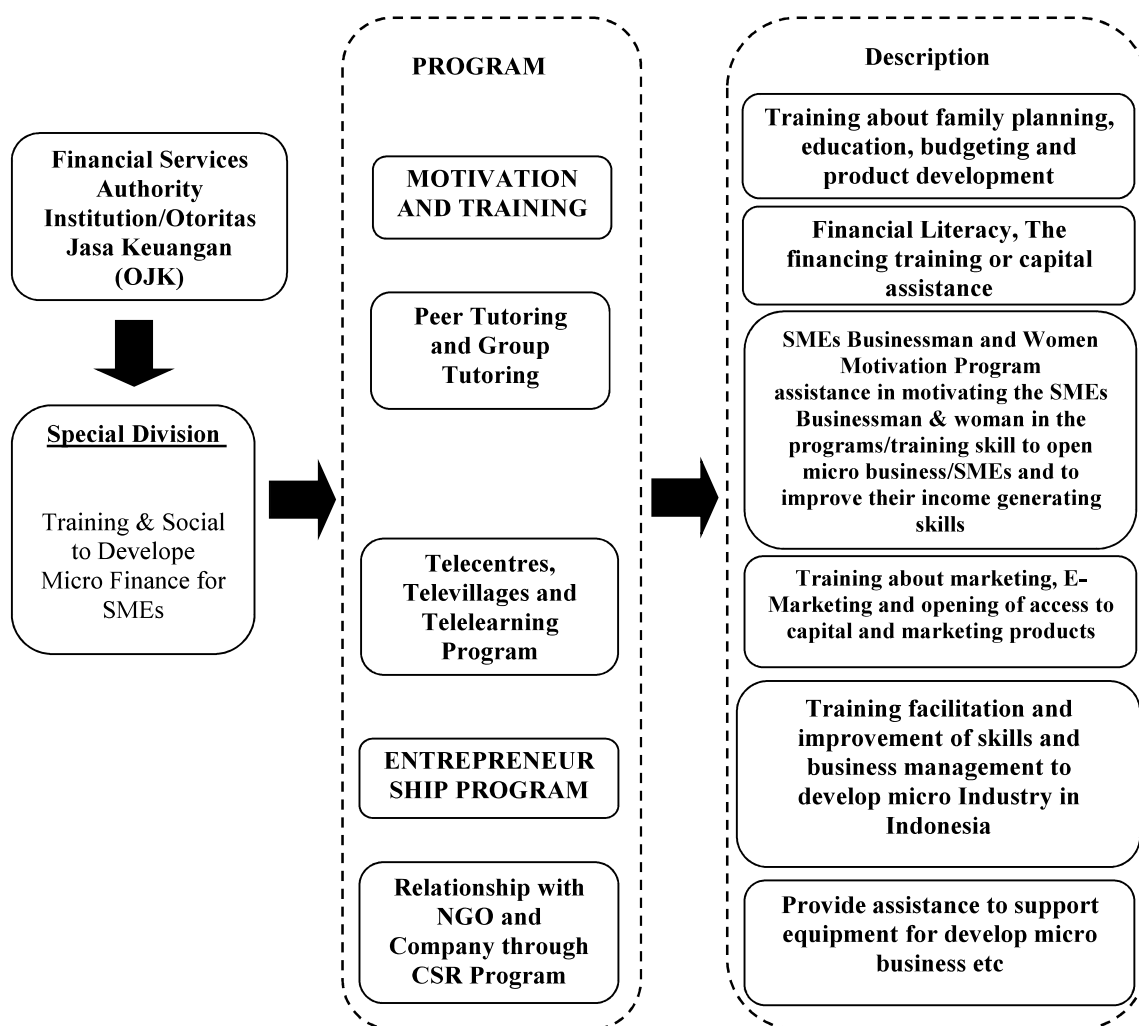
Source: Author

[50] Retrieved from Gibbons, D.S. (Ed.). (1994). The Grameen Reader: Training Materials for the International Replication of the Grameen Bank Financial System for Reduction of Rural Poverty. (2nd Ed.). Dhaka: Grameen Bank

Based on the discussion above, it can be concluded that in order to develop microfinance in Indonesia, which the government of Indonesia has the potential market for microfinance business, it would be better for OJK as a Financial Services Authority Institution to make clear regulation and make special division in training and social program with professionalism and implementation of government practice to develop microfinance and to reduce poverty in Indonesia.

2.6   Conclusion

Microfinance market based on socioeconomic, demographic condition, and micro business in Indonesia is highly potential. The number of people who have access to micro-finance institutions is only 10 percent. With current conditions, the effort to expand access to financial institutions at the lower layers of society (financial inclusion) becomes very important. With the Indonesian laws requiring banks to have a minimum of 20% of their loan portfolio dedicated to micro-credit in 2018, it has opened new opportunities to further develop the microfinance sector in Indonesia.

Law act no 21 of 2011 gives full authority to *Lembaga Otoritas Jasa Keuangan* or OJK as a Financial Services Authority Institution as resulted in the government Indonesia to have a new independent agency in terms of regulation and supervision integration to the overall activity in the financial services sector including the micro finance sector. The Fundamental economic problem in Indonesia is an internal challenge in the form of a gap, which is characterized by the presence of unemployment and poverty. Meanwhile, the external challenge is improving the competitiveness of the global market. The establishment of OJK has been very precise with the integrated Microfinance regulation and supervision. It is expected to be able to develop MFIs by encouraging business micro productive through the provision of microfinance for micro business/SMEs loans to help the government to encourage economic growth and reduce poverty.

For the future, OJK needs to develop training and social programs for micro businesses and poor people. These are in line with the government's focus on reducing poverty through microfinance as has been done by other countries such as Bangladesh

and India. The important aspect of the reinforcement is to provide the broadest access to the poor to be able to try and improve the quality of life, but OJK as a new Financial Services Authority Institution has not had a division in Training & Social Program to develop microfinance for SMEs. Therefore, the recommendation for OJK is to make new division as the strategy to improve the role and function of OJK to develop microfinance through training & social program for SMEs in Indonesia.

CHAPTER THREE

MICROFINANCE BUSINESS

COMPETITION FOR SMEs IN

INDONESIA

3.1   Introduction

Micro, Small, and Medium Enterprises (SMEs) have an important and strategic roles in encouraging the Indonesian economy. The current situation is not only for rural banks (BPR) and the financial institutions that provide credit to SMEs, but many conventional banks have to provide credit services to SMEs, this has led to the tight competition in the financial services industry in Indonesia. According to a report from OJK as Financial Services Authority in 2014 in the banking sector, there are 16 major banks dominating the market share of 70-75%[51]. Based on data statistic Central Bank of Indonesia and OJK/FSA in April 2016 total SMEs bank account is 14,250,388 or 24.91% from total 57,189,393 units of SMEs in Indonesia, so it still has 75.09% of SMEs on Micro Credit financing opportunities in Indonesia and not yet have access to banking.

Based on monthly data statistics from the Central Bank of Indonesia in March 2016, the percentage of SMEs Loan Lending is dominated by Conventional Bank. SMEs' Loan Lending from Rural Bank is only 4.9% of the Total SMEs' Loan Lending[52]. Therefore, it is important for the OJK as Financial Services Authority and as

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[51]Annual report OJK/Otoritas Jasa Keuangan, 2014.

[52]According to the Bank Group, the majority of MSME credit extended by state-owned banks as much as Rp 399.9 trillion (48.3%), the Group of Non Foreign Exchange National Private Bank amounting to Rp 278.7 trillion (33.6%), BPD Rp51. 3 trillion (6.2) Non Foreign Exchange National Private Bank amounting to Rp 42.0 trillion (5.1%), Bank Mixed Rp 13.5 trillion (1.6%), Foreign Banks Rp 2.4 trillion (0.3%), and RB / SRB Rp 40.8 trillion (4.9 %). Source Monthly Data Statistics from the Central Bank of Indonesia in March 2016, page 1-2

an institution to monitor the conditions of the competition in the micro-banking sector and any other micro financial industry, to ensure fair competition and stability of the micro financial industry. Besides that, there should be a harmonization between setting the aims to promote competence and attitude of caution to each of the banks and MFIs in Indonesia, to encourage competition in the financial industry to realize a low price. In microcredit, for example, it is still faced with high-interest rates.

OJK as Financial Services Authority needs to set the risk premium to be a component in determining bank interest, particularly for the microcredit segment. Currently, in Indonesia, risk premium for micro-credit sector is established by high banks. In fact, this premium beyond lending rate (prime lending rate) loan portion, is not natural if the risk premium is set larger than the prime lending rate of banks that has entered the profit component, the cost of funds, and operational risk. To that end, the OJK needs to regulate the standardization of risk premium credit segment of Small and Medium Enterprises (SMEs). Moreover, the determination of the risk premium on the prime lending rate is considered not only occurring in 1-2 banks but also in some of the banks in Indonesia. In July 2014, the OJK/FSA and the Commission's for the supervision of business competition made cooperation and signed a Memorandum of Understanding on the regulation and control of monopolistic practices and unfair competition in the financial services sector. The aim of Memorandum of Understanding is harmonization of regulations, preparation of joint studies and research, exchange information and data, assist each other in providing speakers and experts, and coordinate the activities of dissemination, education, and training to make fair competition and stability of the micro financial industry.

Competition is a mutual fight between two individuals or groups to compete for the same object. In general, there are two approaches to the theory of competition, namely the approach of structural and non-structural (Bikker and Haaf, 2002). Competition occurs between the Micro Finance Institutions, Rural Banks, and Conventional Banks in Indonesia, that have a micro-credit products – not only in price competition, but also non-price competition such as speed of service, network access, and, of course, the quality of service. Flexibility and an easy application process are the "excellence" that must be competitive and enhanced by MFIs and Conventional Banks

so that they are more easily, quickly, and precisely in implementing innovations, such as innovation using information technology. Indeed, the interest rate is not be seeded again since, in general, the market price in the form of interest rates for microcredit, for example, can be said to be not much different. From various literature studies and empirical evidence, micro business entrepreneurs are not "sensitive" to interest rates, but rather on the practicality, simplicity, speed, and timely service[53]. Thus, a form of competition that will occur in the future will be more in the form of non-price competition. Non-price competition in practice is more focused on network expansion, product features, services, and the empowerment of social capital. According to Francis Fukuyuma (1995) and Grootaert (1998), the notion of social capital includes aspects of values, norms, culture, relationships, social conditions, and informal ties. Based on this understanding, the result of the process of social capital is in the form of informal relationships based on trust.

The easiest thing is to do network expansion, the development of product features, and services. Meanwhile, which difficult and rarely considered is the empowerment of social capital. Understanding the characteristics and culture of the people is not difficult, but will become difficult during the implementation. Empowerment of social capital requires not only sincerity and commitment alone but also the "conscience" to take sides in the form of "pleasure" without the distance between the customer and the bank officer with the community. Besides, the fundamental role models from the management very important and need a kind of commitment to make appropriate role to ensure fair competition and stability of the

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[53]Author literature studies from International conference proceedings, Belgrade Serbia (14-16 October 2015) "Challeges to Promoting, Enterpreneurship, Leadership and Competitiveness" page 25-111. Hernandez, Jose G Vargas (2015) "Business Incubator as Allied in Reducing The Transaction cost in Mexican Entrepreneurs", International conference proceedings, Belgrade Serbia page 25-33. Danijela and Dejan Vukosauljovic (2015) "Small and Medium-Size Enterprises are Becoming Pillars of Development of EU and Serbia, International conference proceedings, Belgrade Serbia page 34-57. Holland, Neila (2015) " The Impact of Female Small Businesses on Small Communities, Economy, Employment, and Overall Financial Wealth, page 57- 67. Bevanda, Vuk and Momcilo Zivkovic " Social Entreprenurship as a Model for Improving Employment and Economic Development (2015), International conference proceedings, Belgrade Serbia page 67-87. OECD (2014) "Small Business, Job Creation and Grwoth: Fact, Obstacles and Best Practice, page 3-44. SMEs generally tend to be confronted with higher interest rates, as well as credit rationing due to shortage of collateral, not thinking about impact high-interest rate for sustainability their business in the future.

micro financial industry in Indonesia. The current condition the banking and MFIs in assessing the appropriateness of the SMEs customers to get credit only seen from asset appraisal, financial reports, and current conditions, but does not see the companies' prospects for the future. This chapter provides a systematic assessment of the Micro Credit Business Competition for SME's in Indonesia. This chapter gives Information about micro business competition between Conventional Bank and Rural Bank/BPR, development of SME's Credit in Indonesia, the challenges, and opportunities for financing SMEs. The author give the recommendations for Conventional Bank and Rural Bank/BPR to improve services for SME's customer and make recommendations on the Strategy for the Development of SMEs Business through the Improvement of Additional Services for Microcredit Customer.

3.2 The Development of Rural Banks (BPRs) and Conventional Banks

Rural Bank/BPR is a financial institution that accepts deposits only in the form of time deposits, savings, or another equivalent form and distribute funds in a BPR effort. BPR business activity has continued to grow. Rural Bank with the total assets of over 40 billion continued to grow since 2009 until August 2016 but total percentage of Growth Assets BPR on August 2016 has decreased. The development is only 10.62% per year and the development for Loan Disbursement is only 10.48% (Figure 3.1)

Figure 3.1. Assets and Loans Disbursement of Rural Bank (BPR)
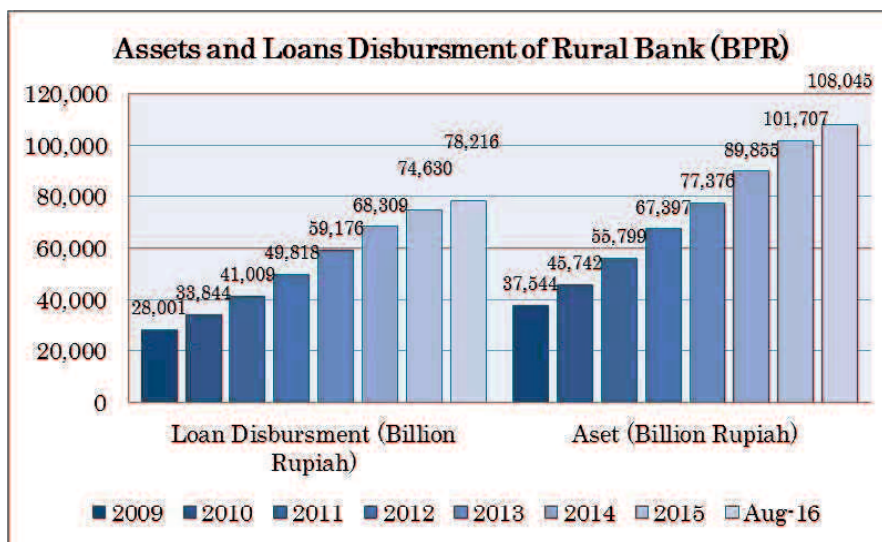
Source: by Author based on Data from Annual Report The Central Bank of Indonesia 2009-
2012 and OJK/Financial Services Authority , 2013-August 2016.

Rural Bank asset growth was also apparent in the distribution of the number of rural banks by total assets (Figure 3.2).

Figure 3.2. Percentage Assets and Loans Disbursement of Rural Bank (BPR)
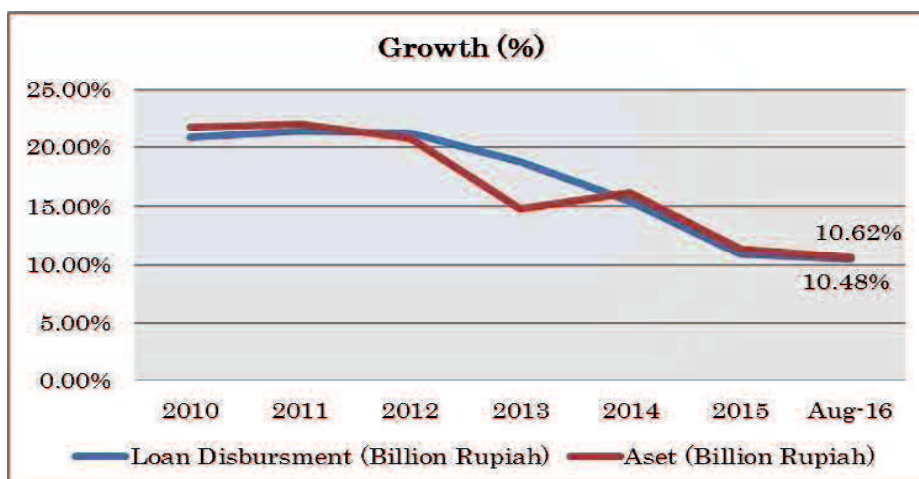
Source: by Author based on Data from Annual Report Central Bank of Indonesia 2007-2012
and OJK/Financial Services Authority Data, 2013-August 2016.

Third-Party Funds Developments Rural Bank has also increased. Meanwhile, interest rates on average credit of BPR are still relatively high, especially for loans of Working Capital high-interest rate credit average co-driven by the concentration of Third-Party Funds high costs, namely deposits, accompanied by an average interest rate of Third-Party Funds is high. These are shown in Figure 3.3 and Figure 3.4

Figure 3.3 The Development of Third-Party Funds of Rural Bank
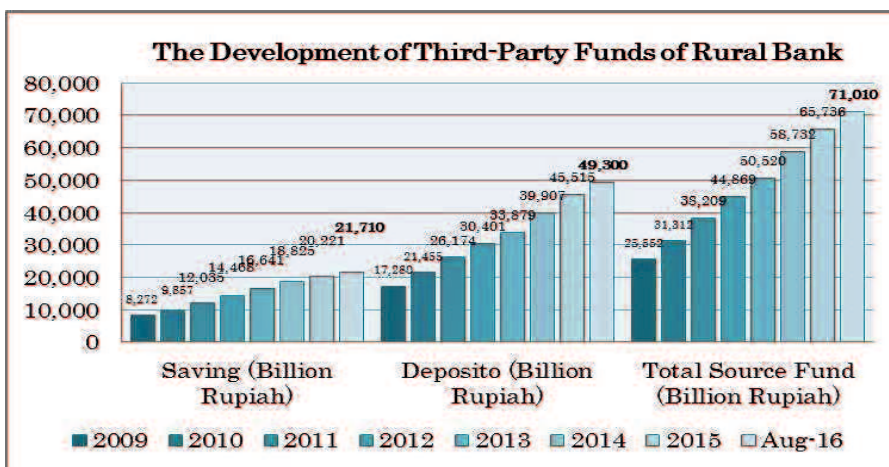
Source: by Author based on Data from Annual Report Central Bank of Indonesia 2009-2012
          and OJK/Financial Services Authority Data, 2013- August 2016

Figure 3.4. Percentage Development of Third-Party Funds of Rural Bank
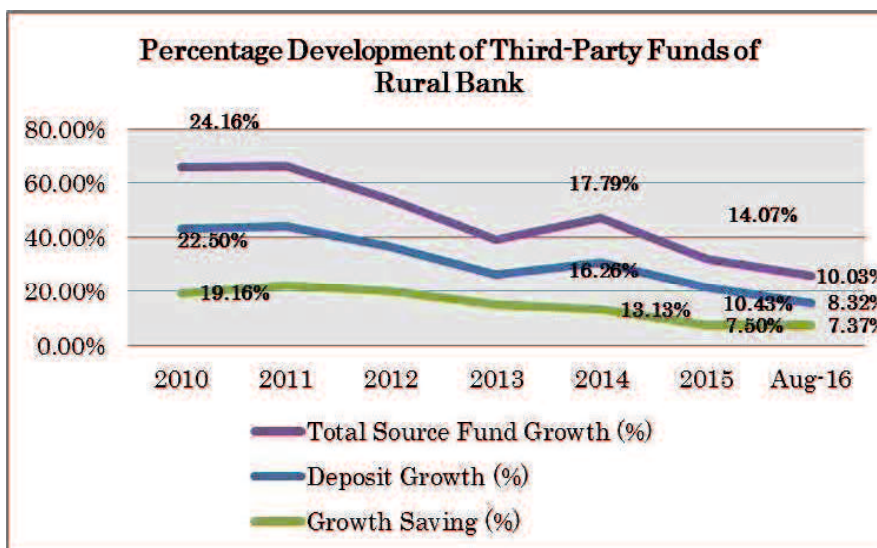
Source: by Author based on Data from Annual Report Central Bank of Indonesia 2009-2012
          and OJK/Financial Services Authority Data, 2013-August 2016

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LDR[54] Rural Bank/BPR also showed a trend of growth in August 2016, which was recorded at 78.06%. Credit growth Rural Bank/BPR and NPL[55] relatively stable despite decreasing compared to 2014. ROA[56] and ROE[57] also showed relatively consistent performance (Table3.1).

Table 3.1 BPR/Rural Banks Industry Financial Ratios

Indicator	2010	2011	2012	2013	2014	2015	August 2016
Loan To Deposit Ratio (LDR) %	79, 02%	78,54%	78, 63%	84,34%	79,40 %	79,10%	78.06%
ROA (%)	3,16%	3,32%	3,46%	3,44%	2,99%	2,76%	2,77%
ROE (%)	26,71%	29,46%	32,63%	32,41%	27,95 %	25,06%	24,96%
NPL (%)	6,12%	5,22%	4,75%	4,41%	4,76%	6,12%	6,45%

Source: by Author Based on Annual Report Indonesian Banking Statistics Financial Services Authority (OJK) report 2010-August 2016

Although the number of rural banks fell as a consequence of the liquidation, the BPR/Rural Bank network efforts continue to increase. The number of Rural Bank increase from 2007 until 2012 but after 2012 total number of rural banks decreases. In

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[54] Definition of LDR *(Loan to Deposit Ratio)* is the ratio between the number of credit funds to the public funds and institution Capital, Mulyono (1995:101), The loan to deposit ratio is used to calculate a lending institution's ability to cover withdrawals made by its customers.

[55] Definition of NPL *(Non Performing Loan)* is The well accepted threshold for classifying a loan as non performing is when obligations related to the loan become over 90 days past due, World Bank, *Loan Classification and Provisioning: Current Practices in 26 Countries* (2014: page 10).

[56] Definition of ROA *(Return on Assets)* is a ratio that measure a company's earning before interest and taxes (EBIT) against its total net assets. Retrieved from http://www.investopedia.com/terms/r/return_on_total_assets.asp , 28 December 2016.

[57] Definition of ROE *(Return on Equity)* is the amount of net income returned as a percentage of shareholders equity. Retrieved from http://www.investopedia.com/terms/r/ returnonequity.asp, 28 December 2016.

November 2015 was as many as 1,644 Rural Banks, with a network of offices of 3,046 offices. The office opening is strongly influencing the high volume of BPR effort.

Table 3.2 Business Activities Rural Bank

Business Activities Rural Banks									
Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Rural Banks	1.817	1.772	1.733	1.706	1.669	1.653	1.635	1.637	1,644
Total Office	3.250	3.367	3.644	3.910	4.172	4.425	3.052	3.137	3.046

Source: by Author based on Central Bank of Indonesia 2007-2012 and OJK/Financial Services
Authority Report, 2013-2015

In general, rural banks still show positive growth and performance. BPRs/Rural Banks relatively shows stable credit growth to the level of credit risk that is relatively controllable. The CAR (Capital Adequacy Ratio)[58] supporting the growth is still quite high and earnings are relatively consistent. However, some things need attention:

a. Rural Bank/BPR should be wary of liquidity conditions, especially at this time, given the credit growth was far above the growth of Third-Party Funds;

b. Majority of rural banks still have a relatively small capital, which in general is below IDR 3Bilion. Based on the studies conducted, it would restrict the ability of the majority of rural banks to continue to grow and develop. On the other hand, the limitations of this capital also helped trigger a high level of inefficiency for BPRs. It needs to become an important concern given the increasing competition in the financial industry, both emerging from commercial banks and non-bank financial institutions

c. Good Bank Governance (GCG) should be of particular concern for Rural Bank/BPR. It is indicated from almost all Rural Banks that they are included in

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[58] Definition of CAR *(Capital Adequacy Ratio)* is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. Retrieved from http://economictimes. indiatimes.com /definition /capital-adequacy-ratio, access 28 December 2016.

Third-Party Funds, and the license has been revoked due to the problems of fraud and mismanagement. Governance issues also arise from the availability of the organization in Rural Bank/BPR.

d.   Lack of availability of the organization in BPR was also partly triggered by a lack of human resources that are reliable for BPR, both in quality and quantity.

To achieving "equitable economic growth," one of which is carried out through the development of SMEs. The opening of the ASEAN financial markets through AEC (ASEAN Economic Community)[59] provides an opportunity to increase open access for SMEs to sources of finance, not only in the domestic but also the international financial markets. BPR as one of the financial institutions supporting the SMEs faces a tough challenge, due to increasing competition. Strengthening institutional capacity, capitalization, good governance business, and a business support infrastructure BPR.

Regarding lending, the proportion of conventional bank as the largest bank group loan also fell, although the decline was not as big as the total assets. This condition reflects the conventional bank if compared with microfinance institution has its advantages in channeling funds to the community with a variety of strategies and capabilities. This indicates that the MFI could compete with the conventional banks to raise public funds through a variety of strategies, capabilities, and also approach to customers. Related to the concentration of the things to consider is whether the concentrated total assets, loans, and, in some of the largest banks, in deposits led to oligopoly and banking cartel in Indonesia in setting lending rates. The analysis is done via three approaches as follows. First, through the method of reporting requirements and publication Lending Rate (prime lending rate)[60].

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[59] Start from 1st January 2016 the ASEAN Economic Community (AEC) came into effect. This community implies stronger cooperation and integration among the ten member countries in Southeast Asia. ASEAN Economic Community consists of Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar (Burma), and Vietnam.

[60] Law Act Bank Indonesia No. 13/5 / DPNP, since March 2011 Bank Indonesia requires banks to report and publish Lending Rate whose components consist of Cost of Funds for Credit, overhead, and profit margins. SE is subsequently amended in January 2013 through SE No. 15/1/DPNP on the amendment added an obligation to report and publish the bank's prime lending rate of micro credit.

Reports and publications reflect the actual condition of the bank, given the prime lending rate calculation are done using the internal data bank the prime lending rate plus the risk premium will be lending rates. Thus, the cartel practices in setting lending rates are less likely to occur due to the prime lending rate reflecting the condition of individual banks are not based on an agreement and comparison with other banks. Secondly, at the time of the determination of lending rates, banks do benchmarking and peer group analysis of the amount of the interest rate.

Thus, the amount and movement of a bank lending rates are likely to be equal and in line with the other banks. It cannot be said to be a kind of cartel practices because there is no element of collusion in setting the interest rates on such loans. In this case, the bank is made as a part of the business strategy of the bank to maintain the level of competition and its survival. Given the potential savings, interest rate changes affect the ability of banks to raise public funds, especially in a non-biggest bank, the bank will make bank benchmark with competitors to see how its position in the market i*n order to* compete.

Based on the three approaches, it can be drawn that a concentrated banking industry has not indicated the existence of a cartel practice in setting lending rates. This condition is also reflected on the trend of interest rates on loans, and bank deposits are likely to decline. Meanwhile, if there is a cartel, it usually indicated from whether the interest rates are steady or increased.

3.3 The Business Competition between Rural Banks and Conventional Banks

The Development of SME Loans Lending Conventional Bank in Indonesia increase every year, these are shown in Figure 3.5. The growth of SME loans lending of total bank credit at the end of 2015 is 6.5%. At the end of 2014 SMEs loan lending growth is 10.16%, still lower when compared with non-SME Loan growth (Figure 3.6).

Figure 3.5. Development of SME Loans Lending
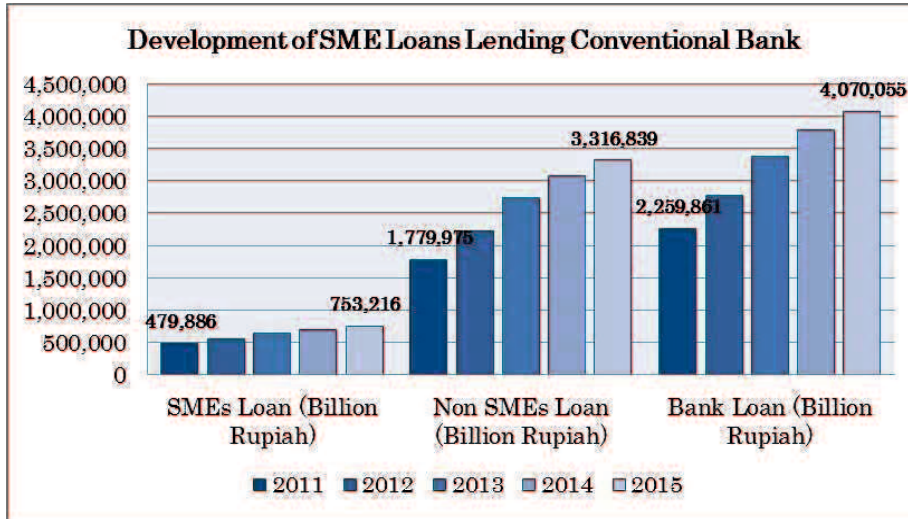
Source: by Author based on Data from Annual Report Central Bank of Indonesia 2011-2012
and OJK/Financial Services Authority Data, 2013-2015

Figure 3.6. Growth Percentage Development of SME Loans Lending
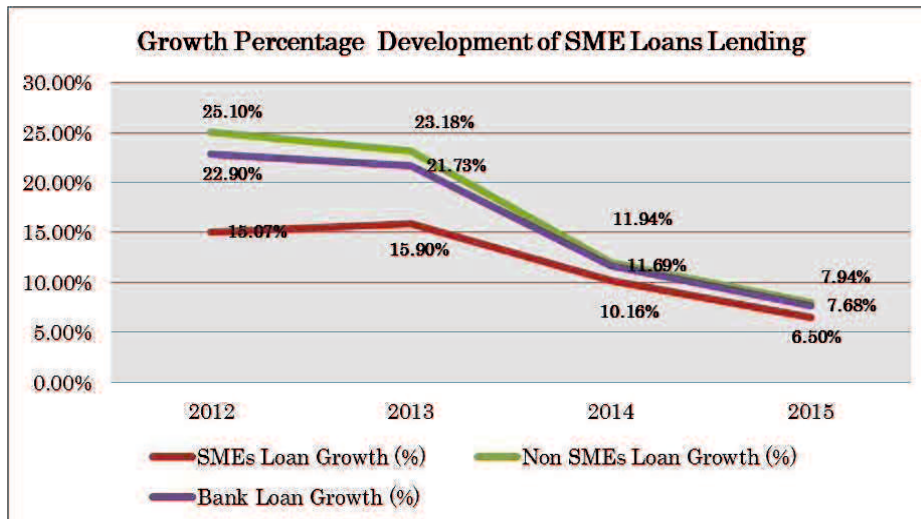
Source: by Author based on Data from Annual Report Central Bank of Indonesia 2011-2012
and OJK/Financial Services Authority Data, 2013-2015

Percentage of SMEs Credit Loan Lending in 2015 is 18.51% from the total Credit

Loan Lending (Figure 3.7).

Figure 3.7 Percentage Credit Loan Lending 2015

18.51%

81.49%

☐ SMEs Loan

■ Non SMEs Loan
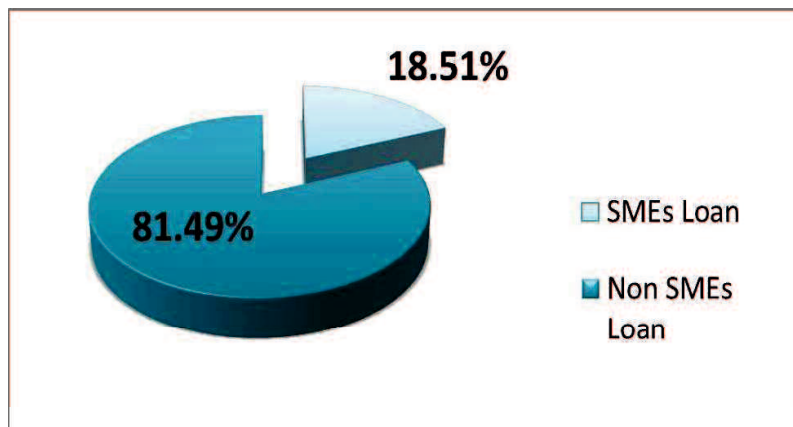
Source: by Author based on OJK/Financial Services Authority Data Report,2015

The Total number of SME loans account in whole has annually increased in April 2016 to as much as 14,250,388. This condition suggests that the public's enthusiasm for SME loans each year has increased (Figure 3.8).

Figure 3.8. The Development Customer Account of SMEs 2011-2016
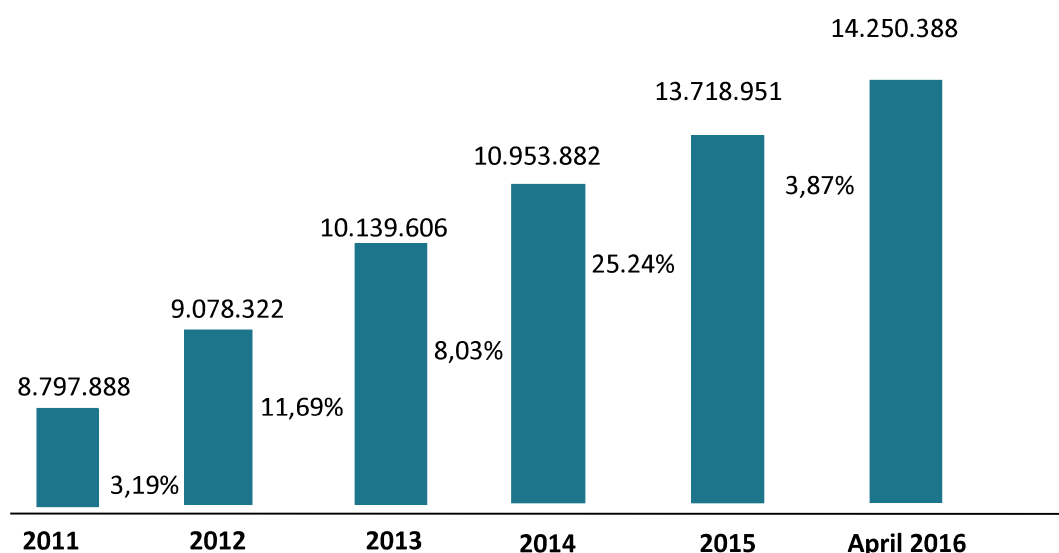
14.250.388

13.718.951

3,87%

10.953.882

25.24%

10.139.606

8,03%

9.078.322

11,69%

8.797.888

3,19%

2011   2012   2013   2014   2015   April 2016

Source: by Author based on Data from Annual Report Central Bank of Indonesia 2011-2012 and OJK/Financial Services Authority Data, 2013-April 2016

Table 3.3 Shows the Development of SMEs Credit based on the Bank's Agency (in Billion Rupiah), the largest percentage of loans is held by State Own Bank/Public Bank (47.9%), and the National Private Bank foreign exchange, BPR on the fourth position it indicates that the level of competition is very tight banking in Indonesia.

Rural Banks face challenges in lending Micro Credit for SMEs because many conventional banks have to provide credit services to SMEs. Based on the data from Rural Banks (BPR/BPRs) Loan Lending for SMEs was considerably low, only 5.2% from the Total SMEs Loan Lending.

Table 3.3 Development of SMEs Credit Based on the Bank's Agency (in Billion Rupiah)

Type of Banks	2011	2012	2013	2014	Sept 2015	Growth	Percentage
						%	%
State Owned Bank	222,646	242,861	304,751	341,804	360,866	5.58%	47.9%
Foreign Private National Bank	176,925	205,733	217,529	230,998	249,772	8.13%	33.1%
Private National Bank	17,308	23,259	27,572	30,367	32,255	6.21%	4.2%
BPD (Regional Development Bank)	31,314	45,082	46,895	50,837	51,730	1.76%	6.9%
Joint Venture Banks	6,651	8,750	11,379	13,467	14,652	8.79%	1.9%
Foreign Own Banks	3,320	712	697	4,246	6,083	43.2%	0.8%
BPR-BPRS (Rural Bank/Islamic or Sharia Rural Bank)	21,722	25,829	31,211	35,420	37,856	6.87%	5.2%
Total	479,886	552,226	640,034	707,461	753,216	6.47%	100.00

Source: by Author Based on Central Bank of Indonesia, Department of SME's Report, 2011-2015

Based on data statistics from Central Bank of Indonesia and OJK/FSA in July 2016, the total of SMEs' bank account is 14,250,388 or 24.91% from the total 57,189,393 units SMEs in Indonesia. Therefore, there are still 75.09% for SMEs Micro Credit financing opportunities in Indonesia and those who do not yet have access to banking. Figure 3.9 shows the opportunities in the financing of SMEs.

Figure 3.9 Opportunities in the financing of SMEs
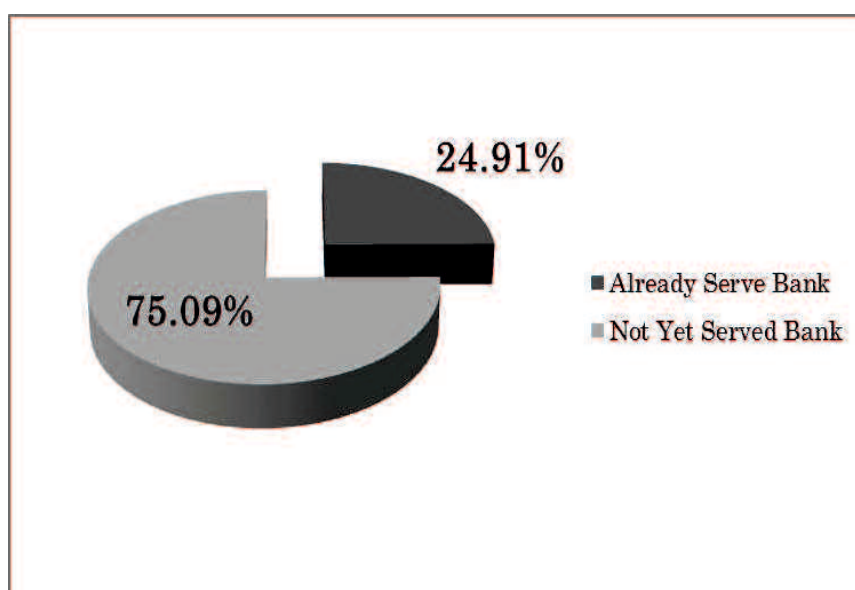
Source: Central Bank of Indonesia, July 2016

The level of competition among microfinance actors is an increasingly stringent industry must be addressed by BPR by reforming internally with the full support of the regulators and associations to enhance the competitiveness of BPR. SMEs Need Financing because the magnitude of the potential community micro-entrepreneurs who not yet touched by the formal banking practices (Unbankable Market). Experience shows that during the crisis microbusiness segments relatively more crisis-resistant

BPR needs to finance SMEs because of the increase in the activity of micro-entrepreneurs in business development financing through working capital. Also, it is encouraging and fostering communities of SMEs to improve skills in managing its

business. Financing SMEs can also create jobs in the rural areas, and it is an attractive business opportunities. Figure 3.10 show the conditions of competition between Financing SMEs.

Figure 3.10 The conditions of competition of Financing Provider for SMEs
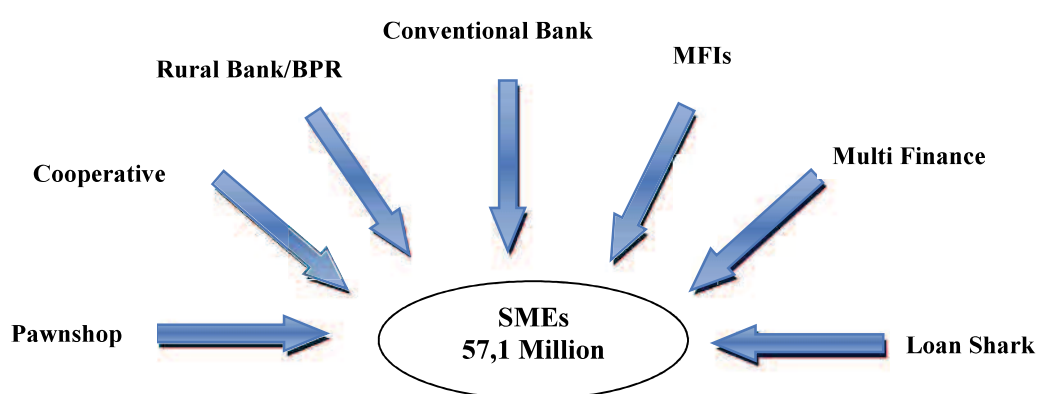
Source: Author

3.4   Description Analysis

Based on data central Bank of Indonesia and OJK/Financial Services Authority 2009-2016, the competition in the Micro credit for SMEs in Indonesia is considerably tight. Market opportunity in Micro credit for SMEs is highly potential, 75.09 % or 42,939,005 units SMEs are not having the access to such scheme. Rural Banking faces challenges to lending Micro credit for SMEs since many conventional banks have to provide credit services to SMEs. Based on the data of Rural Banks/BPRs Loan Lending for SMEs is considerably low, with only 5,2% from the Total SMEs Loan Lending. Therefore, an appropriate strategy to get market micro credit for SMEs is needed and the supports from the Government, OJK, Local Government, Central Bank of Indonesia and Related Institutions are needed. The largest percentage of SMEs' loan lending is

from The Conventional Bank such as State Owned Bank with 47.9% and Foreign Private National Bank with 33.1%.

Competition on Micro Credit for SMEs' lending in Indonesia is influenced by several factors:

a. Financial Inclusion.

b. Branchless Banking.

c. ASEAN Economic Community (AEC) 2015 and Competition MSME Credit Markets.

d. Target SMEs Conventional Bank Loan Portfolio 20%. The Regulation from The Government of Indonesia through Central Bank of Indonesia that issued a rule requires banks to have at least 20% of their loan portfolio dedicated to microloans until 2018. This regulation opens new opportunities for conventional Bank, but creates challenges for Rural Banks.

Financial inclusion is defined as the ability of an individual, household, or group to access appropriate financial services or products. Financial Index is still low in Asia and Africa, as shown in Figure 3.11. on the Financial Inclusion Index with the indicator adults having account in the formal financial sector.

Figure 3.11 Financial Inclusion Index with the indicator of adults having account in the formal financial sector.
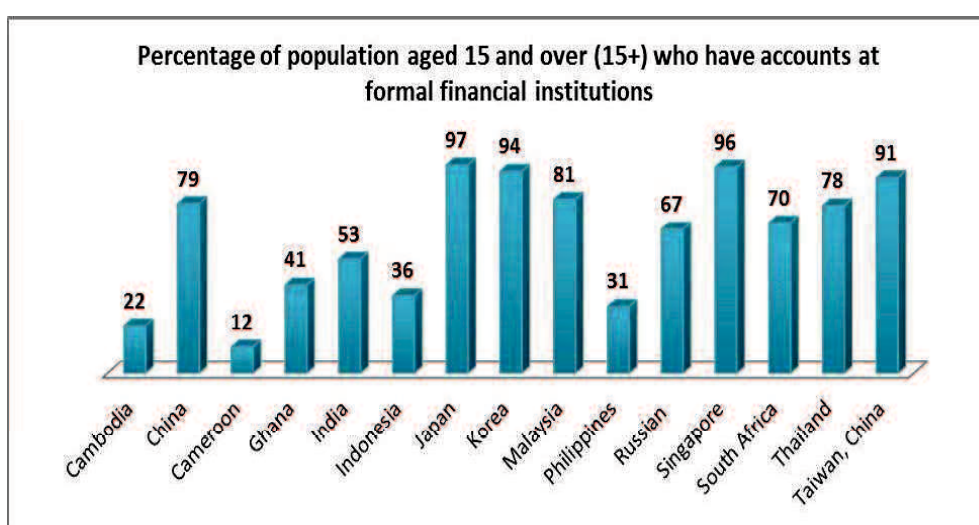
Source: World Bank Global Financial Inclusion Index, 2014.

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The activities of payment services and financial systems that is not limited by physical office bank, but by using technological means (mobile phones, etc) and third-party services primarily to serve the unbanked customer. Branchless banking within the framework of Financial Inclusion is intended to improve finance access for the unbanked customer opportunity and not yet get information (Table 3.4).

Table 3.4. Branchless banking system

Media and Intermediaries	Advantage	Disadvantage
Mobile phone	Safe, easy, quick, cheap, all have	Blind spot
Agency	Available everywhere, informal, easy, cheap	Need system and supervision
EDC/tablet PC	Safe, easy, fast	Blind spot

Source: Author

Branchless banking is important because most of the areas in Indonesia are already accessible through telephone network. Branchless banking is a distribution network that is used to provide financial services outside bank branches through a network technology and alternative cost-effective, efficient, and in a safe and comfortable condition.

Microfinance business competition on the market for SMEs business is growing. Competition is expected not to encourage rural banking industry to take greater risks and must give attention the prudential principles in lending. Need for improved quality of service of Rural Banks, including the capacity for Information Technology of Rural Banks. For the future, Rural Banks/BPR must improve competitiveness strategy. Rural Bank may be able to provide additional services to help market products for SMEs in Indonesia. Through Financial Inclusion and Branchless Banking, Rural Bank can have a synergy program with Commercial Banks .

3.4.1 Strategy to Development Financial Access for SMEs

In order to encourage the increased use of financial services by the public, the following policies are needed: address the market failure caused by asymmetric information and abuse of power, foster innovation of financial services in order to minimize the costs to consumers and producers, and provide financial education and consumer protection so that people can determine the appropriate financial products to their needs and avoid losses. The government can reduce the impact of market failures and encourage Financial Inclusion by establishing the appropriate legal and regulatory framework, support the development of the business climate, promote healthy competition and fair, as well as facilitating a broad range of business schemes to encourage Financial Inclusion.

Technological advances promise to the expansion of Financial Inclusion in Indonesia. Transaction costs can be a barrier for Financial Inclusion when the financial services provider suffer losses due to serving consumers with low incomes. Technological innovations, such as mobile banking, internet banking, and credit/debit card can help reduce transaction costs in the financial system. However, the benefit of technological innovation for the development of Financial Inclusion would greatly depend on the level of financial sector development, market size, income and social structures, and the availability of supporting infrastructure.

3.4.2 Strategy to Development SMEs Business through Improvement Additional Services for Microcredit Customer

Steps that can be taken to make Strategy for the Development of SMEs Business through the Improvement of Additional Services, among others, are by looking at the problems faced by SMEs and the steps that had been taken. Then, in the future, an action is required to ensure fair competition and stability of the micro financial industry in Indonesia. All the necessary matters are as follows (Diagram 3.1).

Diagram 3.1 The Strategy to Development SMEs Business through Improvement Additional Services for Microcredit Customer

Micro Bank (Conventional Banks and Rural Banks)	OJK as Financial Services Authority	Support from the Government of Indonesia
- Internal Product Development through Savings products with low cost and affordable. - Development savings products of community-based (MSME clusters, schools, farmer groups, payroll, etc.), Flexibility administrative for Credit requirements/credit application, Applying competitive interest rates, Credit Guarantee Insurance - Conventional Bank and RB need to Improved Service The attitude of the service personnel, the development of technology-based products and services such as management complain of customer. - IT Development & Risk Management, - Training Assistance and promote SMEs Engaging *Business Continuity Planning*, the marketing of SMEs, for example, Bank has a special division to assist online marketing for SMEs *(E-Marketing)*, Training Business Management etc	- Creation of a Conducive Business Climate - Capital Assistance - Business Protection, make regulation on Micro Insurance - Development Partnership - Training - Establish a Special Institutions - Establish Association - Develop Promotions Develop Equal Cooperation , need for harmonious cooperation or coordination between the government and businesses (SMEs) - Develop Infrastructures - Develop IT-based products together with banking, Cooperate with the insurance in the distribution - Make Role to Provide Guaranty Institution for Microcredit Provider and Guaranty for SMEs with Guaranty Fund through Microcredit Insurance to reduce **Moral Hazard**	- Provide incentives to banks providing loans to SMEs, such as collateral arrangement and collectibility assessment. - The Government provides the guarantee to the risk of SME loans by disbursing special loan program for SMEs through conventional and rural banks . - Support from Local Government - Make appropriate role on business competition, special role about interest rate for microcredit - The Government of Indonesia can make special policy on Tax Expenditure specially to develop SMEs in Indonesia, such as providing Tax Expenditure special for SMEs export quality products.

Service Improvement Micro Credit for SMEs

Source: Author

Recommendation for Conventional Bank and Rural Banks:

1. Internal Product Development through Savings products with low cost and affordable. Savings products are offered according to the characteristics and conditions in the region. Development savings products of community-based

(MSME clusters, schools, farmer groups, payroll, etc.), Flexibility administrative for Credit requirements/credit application, Applying competitive interest rates, Credit Guarantee Insurance

2. In addition, Conventional Bank and Rural Bank need to improve the service and the attitude of the service personnel who fit the profile of the community being served, performance and physical appearance of the Bank in accordance with the profile of the community being served, the development of technology-based products and services such as management complain of customer, and others. Maximize the ball pick-up service, Expanding the service network

3. Training assistance and promoting SMEs' Engaging *Business Continuity Planning*, help the marketing of SMEs, for example, Bank has a special division to assist SMEs' online marketing so that the Bank can assess customers not only from the condition of the assets and the financial statements at this time but also the prospects for the future. Help micro-business to market their products for micro business to go public using technology information that can be managed by a special division of micro banking or division of business management and marketing division of an MFI (E-Marketing), Training Business Management.

Recommendations for OJK as Financial Services Authority

1. Creation of a Conducive Business Climate

    The Government needs to pursue the creation of a favourable climate, among others, by ensuring peace and security and simplification of business licensing procedures, tax breaks, and so forth.

2. Capital Assistance

    The government needs to extend special credit schemes with requirements that are not burdensome for SMEs, to help increase its capital, either through the formal financial services sector, informal financial services sector, guarantee schemes, leasing and venture capital funds. The financing for SMEs should use existing Micro Finance Institutions (MFIs) and non-banks.

3. Business Protection

Certain types of businesses, especially the traditional types of businesses that are economically weak, should receive protection from the government, either through legislation or government regulation that lead to a mutually beneficial relationship. Produce a regulation on Micro Insurance.

4. Development of Partnership

The development of partnerships is needed between SMEs to help each other, or between SMEs and large local or international employers, to avoid a monopoly in the business. Also, it is meant to expand market share and more efficient business management. Thus, SMEs will have the strength to compete with other business people, both from within and outside the country.

SMEs can also partner with the banks, and the banks were able to assist in the promotion of SMEs to create a special division to assist marketing of SMEs, for example, with an online marketing program. Therefore, the banks do not only assess SMEs current performance, but are also able to assess the prospects.

5. Training

Governments need to improve training for SMEs regarding entrepreneurship, management, administration and knowledge and skills in business development. Moreover, it also needs to be given the opportunity to apply the training in the field to practice the theory through the development of pilot partnerships. Bank can also guide SMEs through a program of training assistance to SMEs.

6. Establish a Special Institutions

Need to build a specialized agency responsible for coordinating all activities related to efforts to develop SMEs and also works to find a solution to address both internal and external problems faced by SMEs.

7. Establish Association

Existing associations need to be strengthened, among other things to enhance its role in the development of a network of business information that is required for business development for its members.

8. Develop Promotions

   To further accelerate the process of partnership between SMEs and large enterprises, special media to promote the SMEs' products are needed. Also, there is a need to hold a talk show between an association with its business partners.

9. Develop Equal Cooperation

   There is a need for harmonious cooperation or coordination between the government and businesses (SMEs) to do an inventory on a variety of current issues related to business development.

10. Developing Infrastructures

    There is a need for the allocation of a place of business for SMEs in strategic places to increase the potential for developing the SMEs

11. Develop IT-based products together with banking, Cooperate with the insurance in the distribution.

12. To protect the right of customer, a regulation to provide institution guarantee for Microcredit Provider and Guarantee for SMEs with a Guarantee Fund through Microcredit Insurance to reduce Moral Hazard

Support Regulators from the Government of Indonesia

Provide incentives to banks providing loans to SMEs, such as collateral arrangement and collectability assessment. Make regulation of convenience or flexibility in the loan documentation. The Government provides the guarantee to the risk of SME loans by disbursing special loan program for SMEs through conventional and rural banks. Local Government make program to encourage regional development banks to support economic growth and the acceleration economic growth through development SMEs. BPR/Rural Bank Engage directly in the distribution of Government funds and credit programs. However, the Indonesian government has made efforts to improve micro-credit lending for SMEs, one of them with a decrease in the interest rate policy of the Micro-Business Credit, which began in July 2015. In 2016, the level of microcredit interest rates fell from 22 percent to 12 percent. The government of

Indonesia can make appropriate regulation on business competition and a special regulation on the maximum interest rate for microcredit. Bank supervisors will oversee the maximum interest rate. This effort is intended to prevent the negative impact of the competition of banking funds rate.

The Government of Indonesia can make special policy on Tax Expenditure specially to develop SMEs in Indonesia, such as providing Tax Expenditure special for SMEs export quality products. Therefore, supports from the Government of Indonesia are needed to make appropriate regulation on business competition and a special regulation on interest rate for microcredit, also appropriate policy on Tax Expenditure..

3.5   Conclusion

Microcredit business competition for SMEs in Indonesia is considerably tight. The level of competition among microfinance actors in an increasingly stringent industry must be addressed by Rural Bank/BPR by reforming internally with the full support of regulators and associations to enhance the competitiveness of Rural Bank/BPR. SMEs need financing because the magnitude of the potential community micro-entrepreneurs who have not been touched by the formal banking practices (Unbankable Market). Experience shows that during the crisis, the micro segments who are 'non-standard banking' are relatively more crisis-resistant than the sector of 'standard banking.

Rural Bank/BPR needs to finance SMEs because to increase the activity of micro-entrepreneurs in business development financing through working capital to encourage and fostering communities of SMEs to improve skills in managing its business, creating jobs in the Rural areas, and attract business opportunities. Make regulation and program for the development of Financial Inclusion in Indonesia to give Financial Access for SMEs in Indonesia, by providing Financial Education for SMEs and cooperation with local government, Central Bank of Indonesia, OJK/FSA and related institution.

Therefore, solutions for the improvement of micro credit service for SMEs by Industry Banking are needed, The support from OJK as Financial Services Authority

and support from The Government of Indonesia to make appropriate regulation on business competition to ensure fair competition and for the stability of the micro financial industry in Indonesia, especially for the sustainability of Rural Bank, are also needed.

Therefore, it is important for the OJK as Financial Services Authority and as an institution to monitor the conditions of competition in the micro-banking sector or any other micro financial industry, to ensure fair competition and stability of the micro financial industry. Besides that, there should be harmonization between setting the aims to promote competence and attitude of caution to each of the banks and MFIs in Indonesia, to encourage competition or competition in the financial industry to realize a low price. In microcredit, for example, the current condition is still with high-interest rates.

The level of competition among microfinance actors in an increasingly stringent industry must be addressed by Rural Bank/BPR by reforming internally with the full support of regulators and associations to enhance the competitiveness of BPR. SMEs need financing because of the magnitude of the potential community of micro-entrepreneurs who have not been touched by the formal banking practices (Unbankable Market). Experience shows that during the crisis, the micro-segments are relatively more crisis-resistant, so BPR/Rural Bank needs to finance SMEs because through working capital of micro-entrepreneurs can increase the activity on their business development. Encouraging and fostering communities of SMEs to improve skills in managing its business, creating jobs in the Rural, offering attractive business opportunities, are some of the efforts that can be done. Therefore, solutions for Improvement of Microcredit service for SMEs by Industry Banking, support from OJK as Financial Services Authority, and support from the Government of Indonesia to make appropriate role on business Competition are needed. Additionally, in this paper, the author provides a recommendation to improve Microcredit Service for SMEs in Indonesia to ensure fair competition and stability of the micro financial industry in Indonesia. Consequently, this chapter provides the Strategy to develop SMEs business through the improvement of additional services for microcredit customer.

CHAPTER FOUR

ESTABLISHMENT OF OJK AS

FINANCIAL SERVICES AUTHORITY

FOR MICROFINANCE IN INDONESIA

4.1. Introduction

Microfinance is one of the financial business sectors. The financial sector is the "centre" of the system in an economy. The failure of the financial sector may weaken the performance of the entire system in the economy[61]. The theoretical approach is that financial sector development can give an impact to the economic growth through shifting market through information and transaction costs. A financial market has the financial functions for the mobilization and allocation of resources with monitoring, facilitation of risk management, ease of trade in goods, services, and contracts, through capital accumulation, technological innovation as mechanism of economic growth[62]. Therefore, all of the processes require monitoring system for the finance sector, especially for microfinance.

The establishment of the Financial Services Authority in an economy has several advantages, weaknesses, and challenges. Abrams and Taylor (2000) outline arguments for the advantages and disadvantages in the establishment of supervisory institutions that safeguard the financial system as a whole (banking, insurance, and financing). The development of financial conglomerates allows a parent company to have several institutions at different financial institutions. It creates linkages between institutions so that the risk of inter-agency will also be linked. Therefore, the supervision has to be

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[61] Theoretical studies of microfinance , Joseph Stiglitz, 1990. Peer Monitorinng and Credit Market"World Bank Econ. Rev 4:3 pp 66-351.
[62] Theoritical studies Financial Development and Economic Growth by Levine Ross, 1997, Journal of Economic Literature 688-721.

thorough (not partial) to allow for a thorough risk analysis. In addition to the development of the conglomerate, the practice of arbitration rules (regulatory arbitrage) made by financial institutions to create products that are the more lax in regulation supervisory. Regulatory arbitrage is the practice carried out by financial institutions so that the products produced is supervised by authorities on less tight regulations. Regulatory arbitrage is one of the abuses that arises if the financial sector supervision was done partially.

Financial institutions tend to prefer investing in instruments that are monitored by the regulator, since the application of the rules is relatively strict. They are encouraging competition between the supervisory agencies to attract financial institutions. The establishment of oversight institutions is aimed to increase the neutrality of competition among supervisory agencies. The establishment of a supervisory agency also aims to create flexibility and efficiency on regulation and improve accountability. The presence of several supervisory agencies is potentially creating sectoral arrogance and the transfer of responsibility so that the application of the rules is not effective. Also, the duplication process of retrieval and data processing result in an inefficient application of regulation among supervisory agencies. Blame disbursement strategy *(transfer of authority)* can also arise if there exist some financial supervisory agencies at once. The appropriate monitoring system will significantly affect the success of the Financial Services Authority in carrying out their duties as supervisors of the financial sector.

The establishment of the OJK in Indonesia has a long history. On 27th October 2011, a law draft establishing the OJK was endorsed by Parliament through the enactment of Law No. 21 Year 2011 on the Establishment of the OJK. The Law Act, No. 1 of 2013 gives full authority to the OJK (Otoritas Jasa Keuangan) in licensing, regulating, and supervising MFIs. Development and Supervision of Microfinance Institutions stipulated in the regulations of the Financial Services Authority Law Act No. 14/POJK.05/2014, On 31st October 2014. MFIs still do not have the legal entity of the business license yet, so until now the OJK is constrained to carry out the functions of supervision of MFI duties as appropriate. In Indonesia, many developing Microfinance Institutions that conduct business activities in finance become much help to communities and small businesses. Microfinance Institutions need to develop, especially as an institution, in its

legality, and it needs appropriate monitoring system to improve the economy of the communities and small businesses. Therefore, this chapter provides a systematic assessment of historical establishment of the OJK, vision and mission of OJK, supervision monitoring system of microfinance institutions in Indonesia from the perspective of Law Act, No. 1 of 2013 and Law Act No. 14/POJK.05/2014, comparative supervision monitoring microfinance with another country, and concludes with an analysis on the impact of the establishment of OJK for MFIs, and presents a recommendation for the strategy of supervision improvement and monitoring system through the integration of stakeholders for sustainable SMEs and Microfinance institutions in Indonesia.

4.2. History and Function of The OJK as Supervisor of Microfinance Institutions.

4.2.1 Historical of Establishment OJK

The history of the establishment of the OJK began from the financial crisis condition that occurred in 1997, the global crisis of 2008, and the crisis occurring in the European zone in 2010. The financial industry is predicted to experience a terrible condition. Fiscal policy and monetary policy are needed to save the economy. It is probable that the economic crisis threatens Indonesia[63]. The background of the establishment of the OJK is mainly the development of financial system business conglomerate, hybrid products, regulatory arbitrage, and the problems in the financial sector such as moral hazard, customer protection, and inter-sectoral coordination. Besides, Bank Indonesia Act mandated the establishment of the financial services sector supervisory agencies[64]. Therefore, the realignment of institutions as regulatory and supervisory functions in the micro financial services industry is needed.

The establishment of the OJK in Indonesia has a long history. Since Indonesia's independence in 1945, the country has experienced several phases. One of them is the reign of the new order by President Soeharto, who then resigned from his position on 21

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[63] Hamud M Balfas , Indonesian Capital Market Law: Jakarta PT. Tatanusa, 2012.
[64] Law Act No 23 The Government of Indonesia, 1999

May 1998. During the crisis in 1997/1998, the micro banking in Indonesia provides an extraordinary record of stability in a crisis[65]. After the economic crisis that crippled the banking industry in 1997-1998, the Indonesian government makes improvements across sectors including the financial sector. The idea of the establishment of the authority entered into a command and Law Act No. 23 of 1999 on the Central Bank of Indonesia, where it states that[66]:

(1) The task of overseeing the Bank will be carried out by an independent supervisory agency for the financial services sector, and established by law.

(2) The establishment of the supervisory board referred to in paragraph (1) shall be implemented no later than December 31, 2002

IMF (International Monetary Fund) through a Letter of Intent (LoI) dated 13th December 2001 also provides recommendations to the Indonesian government to establish the OJK (Otoritas Jasa Keuangan). But until 2002, OJK was not yet established in Indonesia. In 2004, the government and the Parliament can only revise the Bank Act, Law No. 3 of 2004 concerning the Central Bank of Indonesia. In the Article 34 paragraph 2 there is a discussion of the OJK, namely:

"The establishment of the supervisory board referred to in paragraph 1 shall be implemented no later than December 31, 2010"

But in the process, until 2010, the establishment of OJK as Financial Services Authority (FSA) had not been realized. This situation occurred due to there is a dissent

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[65] Based on Performance indicators for The Badan Kredit Desa (The BKDs) from 1996 through August 1998 survived the crisis well. The BKDs were stable during the crisis, in Rupiah terms deposits rose steadily and profits increased. Average loan balance was 2 percent of GNP. Bank Dagang Bali on 1996-2000 as small private bank, In Rupiah Term,assets more than quadrupled at Bank Dagang Bali between 1996 and 2000 (a 6 percent increase in dollar term). In 1996 BRIs Unit desas had 7 trillion rupiah in 16 million saving accounts. By 2001 they had 22 trillion rupiah in 27 million accounts. Historical Study by Author from *Robinson, Marguerite S, The Microfinance Revolution, Volume 2" Lessons from Indonesia, The World Bank Washington DC, Open Society Institute, New York, 2002, page 382-396.*

[66] Statements about formation command Independent supervisory agency for financial services sectors listed in article 34, Law Act The Government of Infonesiea No. 23 of 1999 about the Central Bank of Indonesia.

between Bank Indonesia and the Ministry of Finance on the authority to control the banking industry. OJK that the Law Act Draft will be passed in a plenary meeting on 17th December, 2010 is at a stalemate because the government and Parliament did not find an agreement on the structure and procedures for the establishment of OJK's Board of Commissioners.

Finally, Law Act No. 21 of 2011 as the efforts to reform the financial sector, the government, parliament and the House of Representatives agreed to set up the OJK as Financial Services Authority. Then on November 22, the bill was passed, and OJK as an Independent Institution began working in December 31, 2012, which replaces the functions, duties, and authority setting that has been done by the Ministry of Finance through the *Bapepam* (Capital Supervisory Agency and Financial Institution)[67]. Then at the end of 2013, the function of the duties, and authority of banking regulation and supervision by the Central Bank of Indonesia (BI) is also transferred to the OJK. Law Act no 1, 2013 about Microfinance Institutions give full authority to OJK in licensing, regulating and supervising of MFIs. Development and Supervision of Microfinance Institutions are stipulated in the regulations of the Financial Services Authority Law Act No. 14/POJK.05/2014, On 31st October 2014. However, because the number of MFIs in Indonesia reached 60,000, MFIs still do not have a legal entity or business license yet[68]. Until now the OJK have problems and challenges in carrying out the functions and duties to perform monitoring and supervision of MFIs appropriately. OJK is incorporated in the Financial Sector Stability Coordination Forum together with the Ministry of Finance, the Central Bank, the Deposit Insurance Agency, the Ministry of Interior and Ministry of Cooperatives and SMEs. Financial Sector Stability Coordination Forum is a protocol coordination to maintain financial stability in Indonesia[69].

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[67] Otoritas Jasa Keuangan/Financial Services Authority Report, 2012

[68] Global Business Guide Indonesia, An Outlook on Indonesia's Microfinance Sector, 2016

[69] Financial Sector Stability Coordination Forum or *Forum Koordinasi Stabilitas Sistem Keuangan in Indonesia* have responsibility Organizing Government Affairs in Finance to help the President in running the state government.

4.3. Definition, Function, Vision, and Mission of the OJK

The *Otoritas Jasa Keuangan*/OJK as Financial Services Authority is an Institution established by the Government of Indonesia Law Act No. 21 of 2011. Law Act No 21 of 2011 states that[70]:

"Otoritas Jasa Keuangan/OJK is an independent institution and free from the interference of other parties, which have the functions, duties, and authority of regulation, supervision, monitoring, and investigation as referred to in this Act ".

The OJK has the function of Integrated organization as regulatory, monitoring and supervisory system for overall activities in the financial services sector. The OJK has the responsibility to monitor and supervise financial services activity in the banking sector, activities in the financial services sector capital markets, financial services activities in the Insurance sector, pension funds, financing institutions, and others. The OJK as Indonesia's Financial Services Authority is an Independent institution and free from interference of other parties, which has the functions, duties, and authority of regulation, supervision, monitoring, and investigation. Law Act No 21 of 2011, Article 4, states that[71]:

"OJK was formed with the aim that the overall activity in the financial services sector:
a. Held regularly, fair, transparent, and accountable;
b. The financial system can realize sustainable growth and stable;
c. Capable of protecting the interests of consumers and society ".

The vision of OJK is "Being the supervisor on the financial services industry that is reliable, protecting the interests of consumers and the public, and is able to realize the financial services industry into a pillar of the national economy that is globally

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[70] Definition OJK based on Law Act The Government of Indonesia No 21 of 2011, Article 1
[71] Aim Establisment of OJK based on Law Act The Government of Indonesia No 21 of 2011, Article 4

competitive and can promote the general welfare. "The mission of OJK is realized in the implementation of all activities in the financial services sector on a regular basis, fair, transparent, and accountable. It is also realized in the financial system and show stable growth in a sustainable manner; as well as protecting the interests of the consumers and society.

4.4   Microfinance Institutions Supervision Monitoring System in Indonesia

4.4.1   System Monitoring for Microfinance Institutions from the Perspective of Law Act No. 1 of 2013 and Law Act of OJK No. 14/POJK.05/2014

Based on Law No. 1 of 2013, the Micro Finance Institutions (MFI) is a specialized financial institution established to provide business development services and community empowerment, either through a loan or financing for micro enterprises to members and the public. The management of deposits, as well as the provision of consulting services business development is not only for profit. The system for regulating, monitoring, and licensing for MFI is based on law Act of 2013, which can be shown below in diagram 4.1.

MFIs encourage the empowerment of people, especially the income of middle and micro, small, and medium enterprises (SMEs) that need comprehensive support from financial institutions. Therefore, necessary rules and special supervision has to be produced and performed by the OJK as an institution that has the authority to conduct training and monitoring of MFIs in Indonesia. MFI shall submit periodic financial reports every four (4) months for any period ending on April 30, August 31, and December 31, to the OJK. The monitoring, regulating, and supervising on MFIs are conducted by the OJK. The rules on development and monitoring on MFIs regulated under OJK in Law Act No. 14 / POJK.05.2014.

OJK also has the authority to monitor competition in the business development of the microfinance sector in Indonesia. Based on government regulation law Act No. 89 of 2014 on Interest Rate Loan or Yield Financing and Wide Area Coverage Business of MFIs, MFIs shall report the maximum interest rates or yields maximum loan financing to the OJK every four months in accordance with the reporting procedures

established by the OJK. Meanwhile, the maximum limit stipulated for granting loans or financing is at most 10% (ten percent) of the capital of MFIs to customer groups and highest 5% (five percent) of the capital of MFIs for one customer.

Diagram 4.1. The New Structure OJK for regulating, monitoring, and licensing based on Law Act 1 of 2013.

Regulator		Monitoring & Licensing

Central Bank Indonesia (BI)

Ministry of Finance

Ministry Home Affair, Ministry of Cooperative and SMEs

OJK

Capital Market	Financial Institutions (Non Bank)	Bank
-Company Securities -Mutual Fund -Investment Company -Stock Exchange -Board of Arbitration Effects -LBG Clearing & Guarantee - LBG Storage & Settlement	-Pension Fund -Insurance Company -Company Financing -Venture Capital -Guarantee Company -Saving and Loan Cooperative **-MFIs**	-Commercial Bank/Sharia -Bank Limited/LOE -National Private Bank -Foreign Bank -Bank Mixed -Bank Regional Government -Bank Rural/Sharia

MFIs: Bank Desa (Village Bank), Lumbung Desa (Village Barn), Bank Pegawai (Employees' Bank), Bank Kredit Desa (Rural Credit Bank), Bank Kredit Kecamatan/BKK (Loan Bank for District), Kredit Usaha Rakyat Kecil/KURK (Small Business Credit), Lembaga Perkreditan Kecamatan/LPK (District Credit Institutions), Bank Karya Produksi /BKPD, Badan Usaha Kredit Pedesaan /BUKP (Rural Credit Enterprises), Baitul Maal wa tamwil (BMT), Baitul Tamwil Muhammadiyah (BTM), and another MFIs

Source: By Author based on Law Act 1 of 2013.

Based on law act of the Government of Indonesia No 1 of 2013, the responsibilities between the Central Bank of Indonesia (BI) and OJK are regulated. Micro-prudential is more directed to the analysis of the development of individual financial institutions. Macro-prudential is more led to the analysis of the overall financial system as a collection of individual financial institutions. Keeping different financial institutions secured is not enough. A broader approach is needed to safeguard the financial system. Table 4.1 shows the difference between the macro-prudential and Micro-prudential function that responsibility as the Central Bank of Indonesia (BI) and the Financial Services Authority (OJK).

Table 4.1 The difference between the macro-prudential and Micro-prudential function that responsibility as the Central Bank of Indonesia (BI) and the Financial Services Authority (OJK).

	Macro-prudential (Responsibility of BI)	Micro-prudential (Responsibility of OJK)
Purpose	Monitoring and assessment of the overall financial system.	Monitoring and assessment of the individual health of financial institutions.
Focus/The and Purpose	Reduce the cost of the crisis (drop in GDP)	Consumer Protection
Risk Model	Most Endogenous	Exogenous
Exposure cross correlation and financial institutions (contagion)	Important	Irrelevant
Prudential policy calibration	Focus on systemic risk, top down	Focus on the individual risk of financial institutions, Bottom up
Focus	Systemically Important Financial Institutions/SIFIs	Individuals Financial Institutions

Source: Central Bank Indonesia Annual Report. 2014

Regulation and supervision of the institutional, aspects of the Prudential and bank inspection is the scope of micro-prudential regulation and supervision of the duties and authority of the OJK/FSA. As for the scope of macro-prudential regulation and supervision, those are the duty and authority of Bank Indonesia. In the framework of macro-prudential regulation, monitoring, and supervision, the OJK/FSA helps Bank Indonesia to conduct the appeal moral to Banking.

Microfinance Institutions Supervisory mechanism is under the Law Act of OJK

No. 14/POJK.05/2014 performed by the Financial Services Authority that coordinates with the Ministry cooperative and the Ministry of Home Affair for the inventory of MFIs and socialization Act to MFIs, but in coaching and for the supervision, OJK does not work alone but instead delegate the task to the Regional Government/Regency/City in order to carry out the powers and remain under the supervision of the OJK. If the regional government is not ready, then the OJK will delegate the guidance and supervision to another designated party that requires a synergy within the Microfinance in Indonesia. Diagram 4.2 shows the monitoring system of MFIs

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Diagram 4.2 Monitoring System of MFIs based on Law Act of OJK No. 14/POJK.05/2014
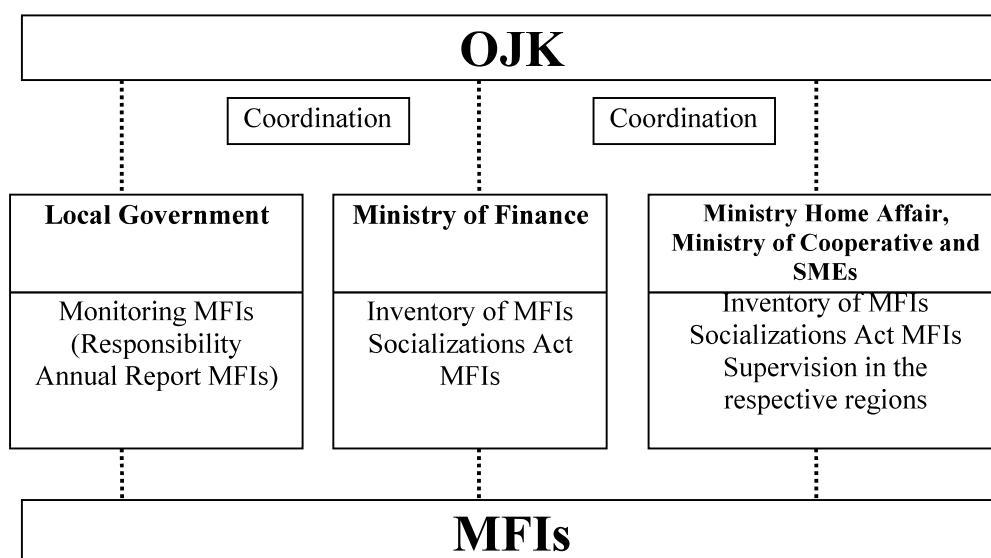
Source: by Author based on Law Act of OJK No. 14/POJK.05/2014.

4.5.   Impact of OJK Establishment for MFIs and SMEs in Indonesia

The endorsement of regulation came considerably late. The government took too long to ignore the microeconomic sector, causing micro-finance institutions to have grown so rapidly without the control of the government. That is why the current OJK experienced many challenges for the development of MFIs, for example in the

inventory of MFIs in Indonesia and identifying those that have not been listed on the regulatory process.

The problems that occurred in Indonesia are the number and variety of the types of MFIs and microfinance services. This condition makes the mapping, monitoring and evaluation of financial services are difficult to do. Overlapping rules, the authority and the broad scope of services from the MFIs also contributed to the difficulty of implementing the right strategy for the development of MFIs. This condition makes the level of sustainability of MFIs and microfinance programs to be quiet. Only a few MFIs can survive and compete favourably with other MFIs or more kinds of modern banking services. Heterogeneity of Indonesian society has an impact on the level of diversity of this institution. It takes a central institution and comprehensive regulation to address these issues. The institute will also expect to provide data and detailed information on MFI. Therefore, related research will be able to strengthen the microfinance development in the future.

MFIs have been running the business of financing, as well as financing and deposits which are required to obtain a license as an MFI as stipulated in the Law on the OJK and the Law on MFI in order to avoid criminal sanctions of 1-3 years in prison and a fine of IDR 50 million to IDR 1 billion. MFIs must have to form a legal entity under the Law of MFI, either as Cooperative or Limited Liability Company. Otoritas Jasa Keuangan (OJK) acknowledges the difficulty for the inventory of the number of MFIs in Indonesia during the process of socialising OJK regulation of MFIs. Therefore, OJK is still experiencing difficulties in developing a monitoring system for MFIs in Indonesia. In the manuscript of the laws on the monitoring system of MFI in 2014, where Law Act of FSA No. 14 / POJK.05 / 2014 already was passed by parliament, the number of MFI is 637,838, while the collected data from the government through various ministries show the number of MFIs is above 90,000. Bank Indonesia and BRI were assigned to oversee the Rural Credit Agency (BKD), which is recognized as BPR and authorized in Law Act of the government of Indonesia No PP 71/1992. In late 2014, the number of Rural Credit Agency (BKD) is only 3,569[72] . For that, the OJK should be more active to cooperate with other Institutions such like Central Statistics Institutions.

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[72] Based on Data Annual Report Bank BRI, 2014.

OJK continues to make a list of inventory and until January 2015 OJK has an inventory of 600 thousand MFIs[73]. With the law act that has been set by the OJK, it forces MFIs to register the MFIs legally to the OJK. However, it was with the strict regulations and requirements that all MFIs must be registered on the OJK as well as the rules of the monitoring system for MFIs in accordance to the Law Act of FSA No. 14/POJK.05/2014. Otoritas Jasa Keuangan (OJK) predicts that the number of MFIs left in 2015 is only 10% of what was recorded[74]. The ability of the capital also varies, later MFIs that do not meet the capital requirements of their functions will be transferred into Branchless Banking Agents or intelligent behaviour that is a financial institution without an office. With a minimum requirement of capital for MFIs, it requires MFIs to also need a strong capital financing to serve the community. Probably about 60 thousand will turn into an MFI with a small capital, which the OJK plans to divert these MFIs with small capital into Banking Branchless Agent.

OJK will be monitoring and supervising community-based MFIs, by cooperating with the local government. The number of MFIs that are many and scattered in various regions with the demography condition in Indonesia does not allow the OJK to do its supervision on its own. OJK has perfected the rules regarding business licensing and institutional MFIs. Starting in January 2015, any MFI can only start on business after getting a business license from the OJK[75].

Current conditions with strict regulation and monitoring forces MFIs to have good business management as well as the appropriate business strategy to gain market, primarily micro business market to be able to survive in the microfinance business. With the potential market of SMEs, the development of MFIs cannot be separated from the development of SMEs in Indonesia. SMEs in Indonesia are very dominant in the business industry, although unfortunately the funding for SMEs in Indonesia are still having problems.

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[73] Based on Data Annual Report OJK/Financial Authority Services, 2015..
[74] Based on Data Report OJK Trimester 1, 2015.
[75] Based on Law Act No 14/POJK.05.2014.

Currently, the SMEs in Indonesia are experiencing considerably rapid growth in the number of employment annually by more than 90% of the total workforce in Indonesia are dominated by young people and women[76].

SMEs in Indonesia can contribute to the advancement of national economic growth on exports. Competitiveness of the global market is tight. Judging from Indonesian export capability which is still inferior to other developing countries such as India, Indonesia has not yet able to master the global marketing strategy. It needs the attention from the government to undertake training to SMEs in order to increase knowledge about the competitiveness of the global market and marketing strategies. Figure 4.1 shows the percentage in the development of SMEs in Indonesia between 1998-2013.

Figure 4.1 Percentage Development SMEs in Indonesia (1998-2013)

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[76] Ministry of Cooperatives and Small and Medium Enterprises Republic of Indonesia Report , *Development of Micro, Small, medium Enterprise and Large Industry,* 2015

Table 4.2 shows the development SMEs in Indonesia between 1998-2013. It can be seen as compared to the development of SMEs in 2000, the number of SMEs in 2013 decreased by 2.53 percent[77]. This is due to SMEs in Indonesia experienced some problems. The constraints for SMEs in Indonesia are as follows:

a.   Indonesia has not yet developed the technology for the global market.

b.   The low labour skills and abilities.

c.   Lack of knowledge of global business strategy.

d.   Lack of knowledge of the market and global marketing.

e.   Limited in accessing capital.

The big industrial potential of micro, small and medium enterprises needs funding support, and there are still 79,09% micro small and medium industrial market-sized that have not been explored by micro banks[78]. Market is an opportunity for MFIs as a financial institution that is expected to the development of micro industries in Indonesia and this requires a need for strategy and government policy in improving the role of micro-finance institutions to improve the micro industries in Indonesia. MFIs and Micro banking in the credit approval process do not only see the financial statements, and the micro-client assets but also see potential micro customers for the future. MFIs not just provide funds, but also improvement services to micro customers by providing training, assessment and provides marketing services and products such as " Centre of Online Marketing for Customer" to help customers to make the division of special micro improvement of business services for SMEs[79].

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[77] Ministry of Cooperatives and Small and Medium Enterprises Annual Report The Government of Indonesia 2014

[78] See Chapter 3 Figure 3.9 Page 61.

[79] Older period data in SMEs is not available. Data on SMEs in the period of the New Order became available in 1997. Contribution of SMEs for GDP in 1997-2000 was based on current prices. GDP contribution of SMEs in 2001-2013 based on 2000 constant prices. Donations include oil and non-oil GDP. SME Export value based only on the data in the agricultural sector (agriculture, fisheries, marine, livestock, forestry, plantation), manufacturing, and mining/quarrying.

Table 4.2. The Development of SMEs in the period of 1997-2013[80]

No.	Indikator	Satuan	1997	1998	1999	2000	2001	2002	2003	2004	2005
1	Total of SMEs	Unit	39 765 110	36 813 578	37 911 723	39 784 036	39 964 080	41 944 494	43 460 242	44 777 387	47 017 062
2	Growth of SMEs	Percentage	na	-7,42	2,98	4,94	0,45	4,96	3,61	3,03	5,00
3	Total of SMEs Labour	People	65 601 591	64 313 573	67 169 844	72 704 416	74 687 428	77 807 897	81 942 353	80 446 600	83 586 616
4	Growth of SMEs Labour	Percentage	na	-1,96	4,44	8,24	2,73	4,18	5,31	-1,83	3,90
5	Contribution of SMEs GDP (constant prices)	Rp. Billion	363 200 ,440	552 945 ,40	647 475 ,960	760 089 ,450	791 597 ,40	829 616 ,40	876 123 ,40	924 483 ,60	979 712,50
6	Growth in GDP contribution of SMEs	Percentage	na	52,24	17,10	17,39	4,15	4,80	5,61	5,52	5,97
7	SME Export Value	Rp. Billion	39 277 ,070	69 315 ,40	52 594 ,120	75 448 ,610	80 846 ,520	87 290 ,030	77 096 ,710	95 548 ,240	110 338,06
8	Export value growth of SMEs	Percentage	na	76,48	-24,12	43,45	7,15	7,97	-11,68	23,93	15,48

No.	Indikator	Satuan	2006	2007	2008	2009	2010	2011	2012	2013
1	Total of SMEs	Unit	49 021 803	50 145 800	51 409 612	52 764 603	53 823 732	55 206 444	56 534 592	57 895 721
2	Growth of SMEs	Percentage	4,26	2,29	2,52	2,64	2,01	2,57	2,41	2,41
3	Total of SMEs Labour	People	87 909 598	90 491 930	94 024 278	96 211 332	99 401 775	101 722 458	107 657 509	114 144 082
4	Growth of SMEs Labour	Percentage	5,17	2,94	3,90	2,33	3,32	2,33	5,83	6,03
5	Contribution of SMEs GDP (constant prices)	Rp. Billion	1 032 573,90	1 099 301,10	1 165 753,20	1 212 599,30	1 282 571,80	1 369 326,00	1 504 928,20	1 536 918,00
6	Growth in GDP contribution of SMEs	Percentage	5,40	6,46	6,04	4,02	5,77	6,76	9,90	11,71
7	SME Export Value	Rp. Billion	123 767,87	140 363,84	178 008,28	162 254,52	175 894,89	187 441,82	208 067,00	na
8	Export value growth of SMEs	Percentage	12,17	13,41	26,82	-8,85	8,41	6,56	11,00	na

Source: by writer, be treated based on Ministry of Cooperative and Small and Medium Enterprise Data Annual Report, The Government of Indonesia 2014

[80] Older period data in SMEs is not available. Data on SMEs in the period of the New Order became available in 1997. Contribution of SMEs for GDP in 1997-2000 was based on current prices. GDP contribution of SMEs in 2001-2013 based on 2000 constant prices. Donations include oil and non-oil GDP. SME Export value based only on the data in the agricultural sector (agriculture, fisheries, marine, livestock, forestry, plantation), manufacturing, and mining/quarrying.

A distinguishing feature of Indonesia is the small role played by NGOs in microfinance. This is in contrast to countries such as Bangladesh, Pakistan and the Philippines, where NGOs dominate or play a major role the microfinance sector, or countries such as Bolivia and Uganda, where NGOs that have converted to deposit-taking institutions dominate the microfinance sector. In Indonesia, their role is mainly confined to social intermediation, linking self-help groups to financial institutions. Where they are directly involved in microfinance, the percentage of their participation to the total microfinance sector is very small. For that, the Indonesian government through OJK must continue to develop the program and supervision monitoring system for the development of MFIs and programs for sustainable development of SMEs business in Indonesia.

4.6. Comparison of Monitoring MFIs with Other Country

Four types of supervision monitoring system of Approaches have been established by the countries in the world[81]. Table 4.3 can show the comparative types of monitoring system in some countries in the world. The Government of Indonesia uses Integrated control systems; this system has some advantages and disadvantages, among others are the followings:

Advantages:
a.   Minimization of conflicts between sectors
b.   The optimum focus and comprehensive (holistic) in the regulation and supervision
c.   Consistency rules
d.   Responsive to the development projects and types of financial transactions
e.   Cost efficiency and information-sharing

Disadvantages:
a.   Tendency for the supervision to focus only on the function

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[81] The Group of Thirty, 2014

b.   The potential inefficiencies due to the overtly broad scope of institutions

c.   Excessive power and potential failure coordination with the central bank or finance ministry especially during the crisis

d.   Potential classic monopolistic bureaucracy

e.   The risk of a single point of failure

Table 4.3 The comparative types of monitoring system some country in the world[82]

System	Monitoring concept	Country
Institutional	Supervision and Monitoring Agency formed by shape legal entities supervised institutions	China, Hong Kong, and Mexico
Functional	Supervision and Monitoring Agency established by type business transactions are carried out	Brazil, Italy, and Spain
Dual System *)	Supervision and Monitoring Agency approach functional and institutional	USA
Integrated	Single supervisory agency (regulation and business legal) for the financial sector	Canada, Germany, Japan, Qatar, Great Britain and Germany
Twin Peaks	Separation of the regulatory agencies that monitor financial sector regulation and conduct of business organizations finance	Australia and the Netherlands

Source: The Group of Thirty (2014)
Specification:
*) The supervisory agency approach is a unique case in the United States involving supervision in state level and state.

Monitoring mechanism is in accordance with Law No 1 of 2013, which gives full authority to the OJK to oversee the MFIs. However, as a new institution, OJK has not been able to carry out overall supervision of the synergy with the local government, the interior ministry and the ministry of cooperatives and SMEs. If the local government has not been able to run the surveillance system to other designated party, then in the case pointed to the other party, OJK supervision must consider the aspect of professionalism and integrity.

In the Monitoring System, OJK must notice the factors affecting Monitoring and Supervision of MFIs such as:

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[82]The Group of Thirty, 2014

a.   Human (Human)

Human in this context refers to surveillance in charge of overseeing the MFIs. Supervisors in a supervisory role is considerably influential in achieving the ultimate goal of the plan or orders that have been defined. OJK and Local Government or agency designated by the OJK to oversee and report on the results of supervision to the OJK need to be independent, and its mental attitude is free from influences, not controlled or dependent on others.

Independence can be interpreted as honesty in the auditor in considering the facts and the consideration of objective impartiality within the auditor to formulate and express opinions [83]. For it is the duty of the OJK to do the process of supervision on MFIs, both banks and non-banks need to maintain supervisors' professionalism and integrity in their work in order to achieve optimum results in the regulatory process.

b.   Tools and supporting equipment

The tool is a factor that affects the passage of control. The tools used in the regulatory process MFIs (e.g. computer and software) and other equipment that support the surveillance systems must be adequate.

c.   Object

The object in question is a Micro Finance Institution supervised by the OJK. It can be seen from how the micro financial institutions operate if it is run under the procedures already established in the legislation. MFIs in running the organization must be able to achieve the objectives that were originally planned that one of them is the welfare of the poor or low-income.

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[83] Mulyadi *Auditing*, fifth edition, Salemba Empat, Jakarta, 1998

d.   Environment

The environment also influences the process of monitoring performance. In the context of the supervision of MFIs, the environment in question are areas into the operation of MFIs.

e.   Management

Management is also an important factor in monitoring how Management of MFIs in managing the funds given to communities who borrowed funds. Proper management can avoid the misappropriation of funds that may occur among people who borrow these funds, so that the people who borrow prosper in improving their economic circumstances. OJK must make good management for cooperation and application in the Integration of stakeholders to support the development and monitoring for sustainable SMEs and MFIs Indonesia.

4.7.   **Strategy for Improvement of Supervision and Monitoring System through Integration of Stakeholders for Sustainable SMEs and Microfinance Institutions in Indonesia.**

The Indonesian government must continue to develop the program of supervision monitoring system for the development of MFIs and programs for sustainable development of SMEs business in Indonesia. Financial Services Authority should be more active in synergy with the regional government, the Institute of others and also NGOs to perform Inventory, Monitoring, Dissemination and Development of the MFIs in Indonesia. Financial Services Authority and Regency/City Government as supervisor of MFIs must be professional in carrying out surveillance system and must have high integrity without any pressure and influence from other parties that will have a negative impact in oversight. Guidance and supervision are delegated to the Regional

Government of Regency/City or other designated parties, which include the followings[84]:

a. Acceptance of financial statements and data input into the application system;

b. Implementation of the MFI's financial statement analysis;

c. Receipt and analysis of other reports;

d. Implementation of follow-up on other reports;

e. Preparation of work plan examinations, investigations, and follow-up results of the MFI;

f. The imposition of administrative sanctions to MFIs other than revocation of business licenses and fines; and

g. The implementation of the restructuring measures to MFIs experiencing liquidity problems and solvency jeopardize business continuity.

The Government of Indonesia must make regulations related to the surveillance system synergy delegated to a third party to maintain professionalism and integrity. OJK must create a surveillance system to maximize the integration of information technology systems to minimize the possibilities of the emergence of moral hazard. OJK can cooperate with other institution to conduct a study to determine the most effective supervision monitoring systems and efficient by economic conditions and social demographic in Indonesia. OJK must make research and make comparative Study supervision and Microfinance Monitoring System with other countries that succeed on Monitoring system for Microfinance. In the future development of the OJK should have a branch office in the area to facilitate the surveillance system. Besides that, the government of Indonesia must make the integration of stakeholders to develop and monitor sustainable SMEs and MFIs in Indonesia, shown in Diagram 4.3.

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[84] Development and Monitoring MFIs based on Law Act of OJK No 14/POJK.05/2014 Article 5.

Diagram 4.3 The Strategy of Improvement Supervision and Monitoring System through Integration of Stakeholders for Sustainable SMEs and Microfinance Institutions in Indonesia.

SMEs and MFIs
Development and Monitoring for sustainable SMEs and microfinance institutions

Regulator

OJK supported by:

Central Bank Indonesia, Commission for the Supervision of Business Competition (KPPU) to monitoring and make regulation business competition MFIs.

Ministry of Cooperative and Small and Medium Enterprises;

Ministry of Home Affairs

Program for the Development of SMEs and Monitoring MFIs
Ministry of Finance
Inventory MFIs Socializations Law Act of MFIs Supervision in the respective regions
Ministry Home Affair, Ministry of Cooperative and SMEs
Inventory MFIs Socializations Law Act MFIs Training Program for SMEs, Training facilitation and improvement of skill and business management, Entrepreneurship Program
Local Government
Responsibility Monitoring Annual Report and Financial Report MFIs Training Program of Development Management for MFIs Utilization of Local Resources
Independent Auditor
Audit Annual Report and Management Business MFIs
NGOs
Provide Assistance and training assistance to support equipment for develop micro business
Cooperative and other Corporate Agency (MFIs and SMEs Agency)
Distributor and Marketing Product SMEs Agent branchless banking

Supported and Commitment by Central Government and Policy Maker to develop SMEs and MFIs in Indonesia

Supported and commitment of parliament, the president, ministers, governor, heads of regions/city, etc

Improvement Services for SMEs **(Marketing Services from MFI and Micro Banking)**
Help micro-business to market & promote their products for micro business go public using technology information which can be managed by a special division of micro banking or division of management business and marketing division of an MFI (E-Marketing)
Micro Insurance Provider
Active Socialization and introduce micro-insurance products, active to give literacy about the important insurance for small business

Sustainability of SMEs and MFI Development in Indonesia

Source: Author Recommendation

For the Supervision and Monitoring the MFIs in Indonesia, OJK should not only involve Ministry of Finance, Ministry of Cooperative and Small and Medium Enterprises, Ministry of Home Affairs and Local Government but also can make the integration with NGOs, SMEs' Agency, Independent Auditor, or Micro Insurance Provider. OJK must be supported by Central Government and policy maker to develop SMEs and MFIs in Indonesia. Besides that, OJK can make the rules requiring MFIs and Micro Banking improve their service for customers, especially the micro business, to help micro-business to market and promote their products, and for micro business to go public using the information technology that can be managed by the business development and marketing division on MFIs, such as *E-Marketing* or *" Centre of Online Marketing for Customer"*

Until now, in Indonesia there are no MFIs and micro-banking provides and helps manage the promotion and sale of the products of SMEs. Currently, for the micro-banking program, the MFIs and government were limited to provide training in marketing and business, but not yet directly help manage and market their products to the global market using information technology. Through the management centre of marketing online for customer with the establishment of business development and marketing division in MFIs or Micro banking, can be a mutually beneficial solution for the development of SMEs and MFIs. MFIs and Micro banking in the credit approval process are not only seen from the financial statements and microcredit customer prospective assets but also to consider and give attention on potential microcredit customers for the future. Therefore, MFIs do not only provide funds, but also improve services to micro customers by providing training and provides marketing services and products to help customers to make the division of special micro improvement sustainability of business services to SMEs for developing MFIs in Indonesia, because development of MFI cannot be separated from the development and sustainability of SMEs in Indonesia[85]. Additionally, to make regulation and supervision on MFIs business competition, OJK can make coordination and integration with the Central Bank of Indonesia, the Commission for the Supervision of Business Competition, to

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[85] Recommendation by author for solution one of the problems of SME's for the sustainability of SME's business and development of MFIs in Indonesia.

make regulation of interest rates on microcredit, and regulate business competition on MFIs in Indonesia.

4.8. Conclusion

The establishment of the OJK (*Otoritas Jasa Keuangan*) in Indonesia has a long history. Based on Law No 1 of 2013, the Government of Indonesia has an integrated supervision monitoring system and give full authority to the OJK to supervise and monitor MFIs and Micro Banking in Indonesia. Inventory of Microfinance Institutions until now is still unclear because not all MFI in Indonesia has business license, it is becoming one of the problems of the OJK and make it difficult in implementing appropriate supervision monitoring system.

The strict regulations and requirements that all MFIs must be registered on the OJK as well as the rules of the monitoring system for MFIs in accordance to Law Act of FSA No. 14/ POJK.05/ 2014. *Otoritas Jasa Keuangan* (OJK) predicts that Microfinance Institutions (MFIs) left in 2015 are only 10% of that were recorded. The ability of capital also varies, later MFIs that do not meet the capital requirements of its functions will be transferred into *Branchless Banking Agents* or intelligent behaviour that is a financial institution without an office. With this condition, MFIs must have good business management as well as the appropriate business strategy to gain market, primarily micro business market to be able to survive in the microfinance business in Indonesia. With the potential market of SMEs, the development and sustainability of MFIs cannot be separated from the development of SMEs in Indonesia.

For the Future, the government of Indonesia must make the Integration of stakeholders to develop and monitor for sustainable SMEs and microfinance institutions in Indonesia. To supervise and monitor MFIs in Indonesia, OJK should not only involve Ministry of Finance, Ministry of Cooperative, Small, and Medium Enterprise, Ministry Home Affairs and Local Government, but also can integrate with NGOs, SMEs Agency, Independent Auditor, and Micro Insurance Provider. To make regulation and supervise MFIs business competition, OJK can make coordination and integration with the

Central Bank of Indonesia, the Commission for the Supervision of Business Competition, and can make rule about interest rates on microcredit, and rule business competition on MFIs in Indonesia.

Besides that, OJK can make rules requiring MFIs and Micro Banking to improve service for customer, especially micro businesses to help them to market their products and for them to go public using information technology that can be managed by business development and marketing division on MFIs, such as *E-Marketing* or *" Centre of Online Marketing for Customer"*. MFIs and Micro banking in the credit approval process are not only seen from the financial statements and assets prospective customer microcredit but also consider and give attention to potential microcredit customers for the future. Through management centre of online marketing for customer with the establishment of business development and marketing division in MFIs or Micro banking, can become a mutually beneficial solution for the development of SMEs and MFIs. Additionally, as one of the strategies to get the market for SMEs to survive in the business of microfinance with new the regulation, supervision, and monitoring MFIs through The strategy of improvement supervision and monitoring system through integration of stakeholders for sustainable SMEs and Microfinance Institutions in Indonesia.

CHAPTER FIVE

ANALYSIS OF THE PROBLEMS OF

MICROFINANCE INDUSTRIES FOR

SMEs IN INDONESIA

5.1. Introduction

Indonesia has a potential market to develop microfinance sector, but the development of microfinance is still slow when compared to the existing potential market. Indonesia has a potential microfinance market, but the strict regulations and high-interest rates have hampered the efforts for the development of microfinance. The demographic conditions in Indonesia is a challenge for micro banking that still is not able to reach the whole rural community in Indonesia.

The slow pace of reform in the regulatory and legal environment also deters growth in the microfinance sector. MFI development still has some challenges in both internal and external, as well as the micro banking industry. This chapter analyses the problems of the existing microfinance regulation from the perspective of the problems faced by OJK as a new institution that has full authority in licensing, regulating and supervising the microfinance sector. This chapter also analyses the problems of Microfinance Institutions and Micro Banking by using SWOT analysis. The author provides recommendations of improvement policy for MFI & Micro banking to support SMEs in Indonesia.

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5.2. The Problem of Regulations on Micro Finance in Indonesia

The challenges of OJK to develop microfinance is the social condition problems which one of them is the weak financial literacy Indonesian society. Based on financial literacy survey in 2013, the national financial literacy levels are still relatively low, only 21.84%[86]. For the next, starting in 2015 OJK needs to improve the microfinance market, makes clear regulations and makes a program to implement business education and finance literacy with a mission to educate micro business and poor people in microfinance, improving access to information and marketing microfinance through the development of supporting infrastructure for financial literacy. For the development of microfinance for the future, OJK needs to develop training and social programs for micro businesses and poor people that are in line with the government's focus on reducing poverty through microfinance, as has been done by other countries such as Bangladesh and India.

The duty and responsibility of OJK as Financial Services Authority Institution is to encourage MFIs for the development of MFIs' microinsurance products in Indonesia. OJK must give consumer protection for MFIs customers. The OJK has regulated the Law Act No. 1 / POJK.07 / 2013 about consumer protection financial services sector, which explains the promotion policy in which the sale of products and services from MFIs should be registered and supervised by OJK, but until now the OJK has not cooperated with the Deposit Insurance Agency. This matter is a challenge for the future of the OJK to give guarantee to secure microfinance customers in Indonesia.

5.2.1 Comparative microfinance regulatory authorities in Indonesia and another country.

The fundamental economic problem in Indonesia is an internal challenge in the form of a gap which is characterized by the presence of unemployment and poverty. Meanwhile, the external challenge is improving the competitiveness of the era of free trade. Establishment of OJK as a Financial Services Authority Institution has been very

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[86] Literacy Survey by Central Bank Indonesia, 2013.

precise with the integrated Microfinance regulation and supervision, expected to be able to develop MFIs and can help the government of Indonesia to encourage economic growth and reduce poverty. MFIs can be an instrument for the government program to alleviate poverty by developing micro enterprises in the context of poverty reduction and it cannot be separated from the role of MFIs and SMEs. While banks are not able to reach out to micro enterprises, MFIs can provide financial support with appropriate characteristics to support micro-enterprises. MFIs can help the government to alleviate poverty through community efforts to increase productivity and develop micro enterprises at the rural area.

MFIs has a function as an intermediary in economic activity and if it is functioned correctly it will produce added value. The function includes the productive efforts for SMEs to improve the income of poor people. With the current phenomenon, it cannot be denied that the role OJK as Financial Services Authority Institution is considerably important to make regulations in line with the development of MFIs and the empowerment of MFIs is one prerequisite that must be met to develop a micro business aimed at reducing poverty and economic growth in Indonesia.

OJK as new Financial Services Authority Institution in Indonesia can learn and adopt the system from Bangladesh which were successful in poverty alleviation through microfinance. The government of Bangladesh has been promoting public sector microfinance programs with financial support from international financial institutions or agencies for poverty alleviation[87]. The enactment of the MRAA (Microcredit Regulatory Authority Act) in 2006 marked a major change in the policy on NGO-MFIs. The regulation of microcredit activities of microfinance organizations in Bangladesh with a view to ensure transparency and accountability of their operations requires NGO-MFIs to become LMFIs if they want to continue their operations and allow LMFIs to "provide various insurance services and other loans for social welfare purpose to the creditors and their family members[88]."

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[87] See Microcredit and Proverty Allevation : The Best Practice in Bangladesh . Retrieved http://saarc-sec.org/uploads/document/Bangladesh

[88] Retrieved Policy and regulation for microfinance in Asia, The Foundation Development Cooperation, Banking Witrh The Poor Network, Citi Foundation, 2010

In Bangladesh, there are mainly four types of institutions involved in microfinance activities:

a)   Grameen Bank (GB)

b)   NGO-MFIs having licenses from Microcredit Regulatory Authority (MRA)

c)   Commercial and Specialized banks

d)   Government sponsored microfinance programs (e.g. through cooperative societies and programs under different ministries).

Bangladesh, Pakistan, and India also have an integrated regulatory system while China Regulatory authorities conducted the People's Bank of China (PBC) and the China Banking Regulatory Commission (CBRC). Table 5.1 shows Comparative microfinance regulatory authorities between Indonesia and other countries.

Table 5.1 Comparative microfinance regulatory authorities between Indonesia and other countries

Country	Regulatory authorities
Bangladesh	Microcredit Regulatory Authority (MRA)
China	People's Bank of China (PBC), China Banking Regulatory Commission (CBRC)
India	Reserve Bank of India (RBI)
Indonesia	Financial Services Authority Institution/Otoritas Jasa Keuangan (OJK)
Pakistan	State Bank of Pakistan (SBP)

Source: based on the data from Milken Institute, CGAP and Financial Services Authority Institution (OJK).

Judging from the current situation where the condition of microfinance institutions in Indonesia did not have the Deposit Insurance Agency to give a secured guarantee for a customer, and many microfinance institutions are not able to develop micro insurance products, an active role from OJK is required. The government of Indonesia through OJK as a Financial Services Authority Institution is expected can develop the social programs or training and assistance to micro businesses and poor people by adopting a system from the Grameen Bank in Bangladesh[89], which has been

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[89] The bank's group-based lending scheme has two important features that attract the poor: borrowers are allowed to deal with a financial institution through a group and members self-select their own group. Group-based lending also reduces Grameen's loan default costs by exerting peer pressure to repay

successful in poverty alleviation through microcredit development.

5.3.   The Problem of Micro Finance in Indonesia

Development of Micro Finance Institutions (MFIs) occurred along with the development of SMEs. These SMEs are facing still many obstacles in accessing financing sources from formal financial institutions. Also, the development of MFIs cannot be separated from the characteristics of the MFI that provides convenience to SMEs in accessing financing sources. Barriers arise when the formal financial institutions give the requirement for SMEs where any filing of the financing must have the adequate collateral, capital, and business feasibility. Therefore, most of the SMEs are not able to meet these requirements. Although the cost of borrowing funds from MFIs is slightly higher than conventional banks' interest rate, MFIs provide advantages such as MFI give loans to SMEs and it does not need to have guarantee – only based on trust. This is because the MFI usually has usually known the borrower and their business. The convenience of another disbursement and repayment is flexible, which also often adjust the cash flow of the borrower.

In addition to the above external issues, MFIs also have internal problems related to operational aspects and business empowerment. The first issue concerns the ability of MFIs to raise funds, and most MFIs are still limited in their ability because they rely on a small number of members or the amount of their capital. MFI's ability to manage the business of human resources is still largely limited, so that in the long run it will affect and hamper the development of the MFI business. The summary of MFI issues can be seen in Table 5.2 and Table 5.3.

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loans. It also allows Grameen Bank to pool resources and diversify the risks of lending by lending across communities and groups, thus enabling it to provide loans at: an affordable price.Grameen's group-based lending approach is the guiding principle for more than 750 nongovernmental organizations (NGOs) operating small-scale microcredit programs in Bangladesh and make social programs also give training and assistance to micro business and poor people, Khander, R Shahidur " Fighting Poverty with Microfinance experience in Bangladesh (Oct 1998) page 3-37.

Table 5.2 Potential and Problems Microfinance Institutions

Potential and Problems Aspects of Microfinance Institutions	BPR & BRI Unit	Cooperative	Other Microfinance Institution
The ability to raise funds	Relying on interest rate > average of commercial banks	Relying on the number of members	Relying on its own capital and a member
The ability to fund lending	Loan to *Deposit Ratio (LDR)*, but the quality is worth noting	Limited due to the ability of human resources and business experience	Limited due to the ability of human resources and business experience
Operational management capabilities	Depending on several key Human Resource	Depending on the board	Depending on the board
The ability to generate profits	Relatively better than commercial banks (ROE and ROA)	Depending on the ability and commitment of members	Depending on the ability and commitment of members
Networking capabilities and market access	Focus on trade	Still Limited	Still Limited
Planning and reporting capabilities	Still diverse, especially RBs who have limited capital and operating outside of Java and Bali	Still Less	Still Less
Reach locations	Still does not reach to all corners of Indonesia, especially in remote rural areas	Some areas have been able to reach out to the rural	Some areas have been able to reach out to the rural
Insurance Agency	Existing Deposit Insurance Agency (*Lembaga Penjamin Simpanan*/LPS), has guarantee of security to customers	There Is No Deposit Insurance Agency (*Lembaga Penjamin Simpanan*/LPS), there is no guarantee of security to customers	There Is No Deposit Insurance Agency (*Lembaga Penjamin Simpanan*/LPS), there is no guarantee of security to customers

Source: by Author analysis, based *Otoritas Jasa Keuangan (OJK) of the Republic of Indonesia and Bank BRI data report 2013-2015.*

Table 5.3 Infrastructure and Institutional MFIs in Indonesia.

Aspect	Microfinance Institution - Bank (BPR & BRI Unit)	Microfinance Institution – Non Bank (Cooperative/Koperasi)	Microfinance Institution – Non Bank (Other MFIs)
Regulation	Law on Banking	Law on Cooperatives	Financial Services Authority/Lembaga Otoritas Jasa Keuangan (OJK)
Regulators	Central Bank Indonesia	Minister of Cooperatives and SMEs	Financial Services Authority/Lembaga Otoritas Jasa Keuangan (OJK)
Founding	Central Bank Indonesia	Minister of Cooperatives and SMEs	Financial Services Authority/Lembaga Otoritas Jasa Keuangan (OJK)
Guarantee	Government	None	None
Liquidity	Central Bank Indonesia	None	None
Rating	Central Bank Indonesia	Minister of Cooperatives and SMEs	None
Association	Perbarindo - Asbisindo	Induk Koperasi – Cooperative Center	PINBUK/ *Credit Union*

Source: by Author analysis, based *Otoritas Jasa Keuangan (OJK) of the Republic of Indonesia and Bank BRI data report 2013-2015.*

5.4   Analysis and Recommendations

5.4.1 SWOT Analysis

Based on Freddy Rangkuti (1997) the sub-sections of a SWOT analysis covers strengths, weaknesses, opportunities, and threats by using various indicators. The

SWOT Analysis on Development of Micro Banking and Microfinance Institutions in Indonesia is as follows:

SWOT analysis for Micro Banking, as follows:

1.   Strength Indicators:

a)   Has had a legal entity and a legal framework.

b)   The organizational structure corresponds to the existence of the Micro Banking

c)   The ability of managerial and human resources professionals.

d)   Existing Deposit Insurance Agency (Deposit Insurance Agency/LPS), has the guarantee of security to customers

e)   Utilize the services of Information Technology and network access

f)   The ability to collect and distribute funds

2.   Weaknesses Indicators:

a)   The location has not been able to reach remote areas

b)   The management is not easy, because it requires a guarantee and many SMEs and the poor people are not able to meet the requirements. This has resulted in many SMEs and the poor people cannot enjoy the access to banking, so Micro Banking are not totally using the microfinance market.

c)   Business mentoring/business management training to micro customers are either not available or not maximised.

d)   High level of interest, so that it burdens the micro entrepreneurs and the poor. some micro enterprises are even out of business due to the high interest rates, for example, BRI's micro effective interest rate of 22%/year is considered heavy by small traders/micro-enterprises[90].

3.   Indicators of Opportunity:

a)   The opportunity for Microfinance market is still big and unreached by Micro Banking.

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[90]   See Chapter 2 Reference 35 page 23

b) Development of Branch Office/Unit to remote villages, especially outside Java, is still considerable as development opportunities.

c) Use of the network access and technology development to be more creative to develop products for micro industries.

d) More maximising assistance to micro enterprises, so that customers can minimize bad debts.

e) Holding/Cooperating Microfinance Institutions for the microfinance market to reach remote areas/villages.

f) Opportunities of cooperation with investors and industry.

h) The potential of micro-insurance market has not been the target of microfinance products in Indonesia.

i) Lack of pension programs for the poor in Indonesia, the management of the new pension is limited to civil servants/government officials in Indonesia.

4. **Threat Indicator:**

a) Intense competition micro banking industry in Indonesia is very tight, many conventional banks begin to open the product to take advantage of the large opportunities in the market of microeconomic, such as Bank Danamon banks, Bank Mandiri.

b) With the high interest rates make small businesses become reluctant to deal with micro-banking and prefer to do so with microfinance institutions. The small-scale businessman perceive that the system of micro banking is precisely against them in developing their business.

c) The development of non-bank microfinance institutions, especially cooperatives, makes microfinance institutions competition becomes increasingly fierce.

d) Challenges of the Global Market Competition

SWOT analysis for Microfinance Institutions as Follows:

1. **Strength Indicators:**

a) Membership is open and voluntary.

b) The risk of a shortage of customers is quite small.

c) Low cost.

d) The management of democratic.

e) The number of business units are manageable.

f) The range of reach to remote rural areas

2.   Weaknesses Indicators:

a) Weak capital structure of non-bank microfinance institutions.

b) Lack of management/business management, planning and reporting capabilities are still quite low.

c) Lack of business experience.

d) The level of skills and professionalism of the inadequate human resources.

e) Lack of knowledge of business managers, non-bank microfinance institutions.

f) Business is less innovative.

g) Lack of knowledge and technical skills in the relevant field of work.

h) Less in the mastery of technology.

i) Lack of awareness of their rights and obligations (low member participation).

k) The ability to network and market access is still affordable

l) Does not have a Deposit Insurance Agency (Lembaga Penjamin Simpanan/ LPS), does not have a guarantee customers' security

c) Business mentoring/business management training to micro customers is not yet available.

3.   Indicators of Opportunity:

a) The existence of equity aspects is given priority by the government.

b) Law Act No. 25 of 1992, provides the opportunity of microfinance institutions to be able to cooperate with a micro banking to develop microfinance products and market access to microfinance outreach for remote villages.

c) Strong political will of the government and the growing demands of the community to further develop non-bank microfinance institutions, especially cooperatives.

d)   Economic conditions are sufficient for the existence of micro-finance institutions, especially cooperatives.

e)   Increasingly open world economy resulted in more open international markets for Indonesian cooperative outcome.

f)   Industrialization of business opportunities in agribusiness, agro-industries and other rural industries are some of the potential markets for microfinance institutions.

g)   The existence of a market opportunity for the commodities is produced by non-bank microfinance institutions, especially in cooperative.

h)   The investor who wants to cooperate with the agency is microfinance institutions, especially in cooperative.

i)   Potential areas that support the implementation of cooperative institutions.

j)   Purchasing power of the small and medium-sized industrial products

k)   The potential of micro-insurance market in Indonesia.

l)   Lack of pension programs for the poor in Indonesia, the management of the new pension is limited to civil servants/government officials in Indonesia.

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4.   Threat Indicator:

a)   Business Competition in Microfinance is getting tighter.

b)   The role of science and technology is increasing.

c)   There is still a lack of trust to work together with other economic actors and between micro-finance institutions.

d)   The limited distribution and provision of national technology for microfinance institutions.

e)   Lack of awareness and understanding of microfinance institutions as well as a lack of awareness and public confidence in micro-finance including cooperatives.

f)   The challenges of global market competition.

g)   Inadequate infrastructure and facilities available in certain areas, such as financial institutions, manufacturing, and marketing.

h) Lack of effective coordination and synchronization in the implementation of co-operative development of microfinance institutions across sectors and across regions.

i) The business environment is not conducive.

k) The negative notion of society toward microfinance institution

l) Policy from the government about interest rate is not yet clear, does not have law on maximum interest rate reference for Microfinance Institutions.

m) The possibility of declining purchasing power.

5.5 Recommendations

Policies and strategies for the development of microfinance can focus on the microfinance institutions as community banks are healthy, active, productive, and spanning throughout Indonesia and focus on providing financial services to SMEs, and the poor people, particularly in rural areas.

Problems on microfinance with various types of microfinance institutions and microfinance services makes the mapping, monitoring, and evaluation of financial services difficult to organise. Overlapping rules, the authority, and the broad scope of microfinance services institutions also contributed to the difficulty of implementing the right strategy for the development of MFIs. This condition results in the level of sustainability of MFIs and microfinance programs to decrease. Only a few MFIs can survive and compete favourably with other MFIs or other kinds of modern banking services. Heterogeneity of Indonesian society has an impact on the level of diversity of this institution. It takes a central institution and comprehensive regulation to address these issues. The institution will also expect to provide data and detailed information on MFI. Therefore, related research will be able to strengthen microfinance development in the future.

5.5.1 Recommendations for Strategy Development of Micro Banking in Indonesia

Developing Micro Banking are possible through the following activities:

a. **Strengthening of Micro-Banking**

Micro-banking industry needs to be strengthened through developing the potential of the area, an increase in capital or micro-bank, a policy that encourages the distribution of micro banking in Indonesia, as well as the expansion of branch network and cooperation with commercial banks and other financial institutions in the context of lending to SMEs (Linkage Program). Strengthen microfinance institutions through the following:

(i)   Increasing Capital

To improve the ability of micro banking in expanding and improving competitiveness, efforts to encourage banks to merge or consolidate micro are continued to be made as micro banking has strong capital, more integrated office network, and efficient operation.

(ii)   The expansion of micro banking office, especially in rural area throughout Indonesia.

(iii)   Network Infrastructure

Micro banking expansion by continuing its infrastructure development program as part of the implementation of market penetration strategy through the expansion and intensification program, namely the establishment of micro outlets in the new region by opening new Bank Units and by maximizing business potential in areas that have already been serviced. The expansion of network infrastructure also included the development of e-channel network, such as ATMs and SMS Banking.

(iv)   Quality Improvement of Network

Infrastructure In addition to network expansion, banks should improve the quality of existing systems through the replacement of supporting equipment, which include IT and non-IT equipment that are over five years old, as well as renovation of exterior and interior building of the Micro banking outlets area.

(iv)   Improvement Partnership of Micro Banking with the Commercial Bank/Other Agencies (Linkage Program).

Linkage Program is a collaboration program of Commercial Banks and Micro Banking such as Rural Bank based on the spirit of partnership that is both

interdependence with fixed-oriented aspects of the business as stated in the Generic Model Linkage Program. Linkage Program provides positive results in the development of microfinance as well as increasing their loans to SMEs.

b.   Improving of Regulation

Increased regulation should be continued through improvement provisions related to fulfilment of minimum capital, review, evaluation and refinement of prudential regulations, institutional micro banking, and level assessment of health by considering the total assets, economic and cultural characteristics of the region. Improve regulation on quality control for the development of microfinance to increase the role and contribution as a financial institution for SMEs and local communities, especially in rural areas.

c.   Increasing Effectiveness Monitoring System

Micro-banking industry is healthy, active, productive, and trustworthy. It cannot be separated from the system of supervision by Financial Services Authority. In addition, to improve the regulatory competence through continuous training and certification of inspectors, guidelines for Focused Monitoring Techniques are provided to be used as a reference for all micro banking supervisors to improve the quality of supervision, especially in the early warning issues about micro-banking, or potential problems occurred.

Increasing the effectiveness of the monitoring system is inseparable from the role of information systems. Therefore, efforts to make improvement of the information systems, among others, through the submission of the report of on-line micro-banking to Bank Indonesia and OJK, the improvement of management information systems and integrated micro-banking supervision and improvement of information and publications on the development of the banking and micro conditions on a regular basis.

d. **Encouraging Quality Governance, Management and Good Standard Operations and Professional.**

Micro financing should be managed by the Human Resources (HR) that have the competence and integrity, as well as to apply the principles of good governance. To be able to make the program to improve the number of working units is also supported by the availability of qualified human resources, including the availability of officers. Micro Banking must continue to improve the quality of human resources, and implement continuous education program.

e. **Supporting Infrastructure to Empower Effective Micro Banking Industry**

Strategies to encourage the formation of industrial infrastructure that supports micro banking industry are required to be done. The examples are through an increased role in the implementation of Rural Bank Association coaching and rural development especially in human resource development, enhancing the effectiveness of professional certification agency, as well as increased cooperation and coordination with various agencies to create a conducive climate for the development of the Rural Bank.

f. **Increasing Capacity of Micro Banking through seminars/workshops, training and Micro Business Marketing**

Several marketing programs as part of the effort to expand its customer base are required to increase the loyalty of existing customers and to the increase of savings and loans outstanding. In order to support the development of rural communities and to encourage micro finance banks to productive sectors, Bank Indonesia should organize a seminar/workshop on micro-banking financing to productive sectors such as migrant workers and the agricultural sector with a view to expand the horizons of micro banking officer and upgrade technical account Officer in the implementation of micro finance banks in the industry.

g. **Reinforcing and Improvement Customer Services**

The improvements mentioned above are parts of the effort to enhance Micro Banking customer base in order to increase outstanding loans and deposits. The increase in customer numbers is intended to reinforce Micro Bank customer base, to adhere to the people's economic development in the area.

5.5.2 Recommendation for Strategy Development Microfinance Institution in Indonesia

In addition to the stability of the financial sector, for the proceeding government should also prioritize to improve access to financial services for low-income households and micro, small, and medium enterprises. Currently, about half of the Indonesian households do not have any access to banking financial services. Increasing access to Microfinance Institutions can be achieved by:

a. Expanding the focus of policies to provide microfinance institution services/improvement on additional services;

b. Empower micro-credit institutions, MFIs official through improving the access to finance and capacity building;

c. Establishing a legal framework for microfinance institution such as a cooperative;

d. Encouraging venture capital, leasing, and microfinance products based on Sharia

e. Providing legal and regulatory framework that is clear to the products/services of microfinance institution that use innovative technology as the key to the provision of low-cost financial services.

f. Customer Protection

The strategy is intended to encourage the development of Micro Finance Institution to operate in relation to the interests of the community through the provision of information services and product excellence so that customers understand the offered products and gain protection. Efforts are underway including provisions for monitoring and evaluation of customer complaints, monitoring and evaluation guidelines for transparency and product information

as well as running cooperation with relevant agencies to carry out education for the community. Additionally, the government's role in the future of Microfinance Institutions customers can be guaranteed by the Deposit Insurance Agency.

5.5.3 Improvement Policy for Micro banking & MFIs to support SMEs in Indonesia

Recommendations to solve the major problem issues of government policy in stabilizing the micro banking to support SMEs sector are the followings:

a. Formulate policy to strengthen the Deposit Insurance Agency/*Lembaga Penjamin Simpanan* (LPS) for micro banking and MFIs to provide financial resources required and provide guarantee for micro-banking and MFIs' customers;

b. Formulate policy to strengthen the framework for unfinished micro banking regulations.

c. Formulate policy on maximum interest rate, especially for SMEs micro-banking/MFIs customer.

d. Formulate the policy to stimulate MFI and Micro banking to give additional services improvement to support sustainability and Business Continuity Planning/BCP of SMEs through insurance guaranty, training on marketing and training on business management.

e. Formulate policy for microfinance provider (MFI and micro banking) together with government and local government and design a program to promote SMEs product, such as through exhibition.

f. Formulate the policy to increase the markets breadth of capital stock through increased enforcement of the rules of corporate management. Undertake policy reform as an effort to increase development of microfinance investment in Indonesia

g. Formulate the policy to strengthen the coordination among financial sector institutions.

h. Formulate the policy to increase microfinance financial literacy through financial education for SMEs businessman.

i. Formulate policy for standardization and qualification for the micro insurance company in cooperation with microcredit provider to protect customer and to reduce moral hazard.

j. Formulate policy to increase microfinance access for SMEs businessman.

k. Formulate an integrated regulatory to increase investment for SMEs business by makig simple investment procedures for investment license. Indonesia should begin to change the large domestic markets into a single market. Indonesia should a more dynamic business and also helped SMEs to strengthen capital market development for the global market competition and ASEAN Economic Community (AEC).

l. Formulate special tax for export from SMEs product and implementation of logistic reform to cut high transportation cost.

In addition, increasing microfinance financial access to SMEs is the key to SMEs sustainable growth. The roles of OJK together with the government to make Policy priorities to support sustainability SMEs for economic growth are the followings:

a. Microfinance Institutions requires a legal framework to build institutional capacity. Therefore, OJK as Financial Services Authority whose responsibilities are to monitor, supervise and guarantee MFI's legality must be made as clear regulation on MFIs.

b. Developing Microfinance Institution services such as venture capital, leasing, sharia-based financing, all of which can help meet the needs of the low-income segment.

c. Encouraging public-private partnerships to develop strong and establishing pilot projects of diversification/new financial products and services to be more affordable for a wider section of SMEs.

d. Finding areas without adequate financial services outside Java as the area of intervention, such as SMEs in Rural Area.

e. Reaching underserved areas by encouraging financial services supported by innovative technology, such as via mobile phones.

f. Develop micro-insurance as a risk management tool for SMEs and regulatory framework for the insurance of SMEs Industry to reduce Moral Hazard.

5.6. Conclusion

The existence of Microfinance Institutions in Indonesia did not have clear regulations like the BMT *(islamic micro banking)*, NGO's; a self group did not have clear regulation. For the future, OJK must make the appropriate strategy to develop microfinance in Indonesia.

Based on the analysis results of the author through the SWOT analysis, it can be explained that there are some weaknesses and threats for the development of microfinance institutions in Indonesia. Therefore, the authors provide recommendations for microfinance institutions to the development of micro banking and MFI in Indonesia. Besides, the supports from Government and OJK to stimulate microfinance provider to give additional services are required to support SMEs. Therefore, an improvement of policy to micro banking & MFIs to support SMEs in Indonesia are required.

Microfinance policy should be followed consistently and enhanced by reforms designed to improve competitiveness, increase the flexibility of the labour market, and avoid protectionism that impedes efficiency and innovation. In addition, the Government of Indonesia should undertake policy reform effort to increase the development of microfinance investment in Indonesia.

CHAPTER SIX

RESPONDENTS' PERCEPTION AND EXPECTATIONS ABOUT MICROFINANCE IN INDONESIA TO SUPPORT SMEs BUSINESS

6.1 Descriptive Response Respondents

The sample used in this study were 100 respondents. Characteristics of respondents to the questionnaire given by the researcher appear on respondents' answers. In this analysis, the tendency of opinions and responses from SMEs' entrepreneurs in Solo Area, Central Java, the Republic of Indonesia as respondents in this study will be explained in this chapter. Answers to questions for this study can be seen in the response to a questionnaire given by the researcher and these questions used the 5-point Likert scale.

6.1.1 Financial Access Variables

Financial Access variables are measured using 5 dimensions with a total of 36 statements. The scores of the 36 questions are as follows (Table 6.1):

Table 6.1 Respondent's Response about Financial Access

Number	Questions	Score Answers		Amount
		Yes	No	
Self Exclusion				
1	Do you know the Definition of Bank Savings?	85	15	100

		85%	15%	100%
2	Do you have a savings account at the Bank?	84	16	100
		84%	16%	100%
3	Do you understand the meaning of Deposits in Banks?	66	34	100
		66%	34%	100%
4	Do you have deposits account in Bank?	58	42	100
		58%	42%	100%
5	Do you understand the definition of the Automated Teller Machine (ATM)?	78	22	100
		78%	22%	100%
6	Do you have Automated Teller Machine (ATM)?	75	25	100
		75%	25%	100%
7	Do you understand definition of Micro Credit?	76	24	100
		76%	24%	100%
8	Do you have a Micro Credit Loan in Bank?	56	44	100
		56%	44%	100%
9	Do you understand the requirement of Microcredit?	74	26	100
		74%	26%	100%
10	Do you know how much the interest rate Microcredit Loan?	72	28	100
		72%	28%	100%
11	Do you think that saving money can only be done if you have excess money	79	21	100
		79%	21%	100%
12	Do you think that saving money can only be done for the rich only	56	44	100
		56%	44%	100%
	Total	**859**	**341**	
Access Exclusion				
13	Do you easily find the office of the Bank in Your City?	61	39	100
		61%	39%	100%
14	Do you easily find Automated Teller Machine (ATM) of the Bank in Your City?	66	34	100
		66%	34%	100%
15	Do you think the requirement to open a bank account difficult?	44	56	100
		44%	56%	100%
16	Do you think the requirement to apply for microcredit difficult?	52	48	100
		52%	48%	100%
	Total	**223**	**177**	
Price Exclusion				
17	Do you think the interest rate microcredit on bank is higher than in non-bank micro-credit (MFIs)	57	43	100
		57%	43%	100%
18	Do you think the cost of micro credit insurance premiums in Indonesia classified as High	62	38	100
		62%	38%	100%
19	Do you think fee of administration to submit microcredit loan high in Indonesia?	68	32	100
		68%	32%	100%
20	Do you think that microcredit interest rates are very high?	67	33	100
		67%	33%	100%
21	Do you think the monthly administration fee of microcredit high?	62	38	100
		62%	38%	100%
22	Do you think the guarantee required for micro-credit is still too high so difficult to fulfill by SMEs Businessman	70	30	100
		70%	30%	100%
	Total	**386**	**214**	
Marketing Exclution				

23	Do you ever get an explanation of microcredit / socialization of micro credit (interest rates, requirements etc.)	65	35	100
		65%	35%	100%
24	Whether in town/village you easily to find Bank Office	77	23	100
		77%	23%	100%
25	Is the bank employee at the branch office nearest your location come often to offer micro-credit?	59	41	100
		59%	41%	100%
26	Do you ever get information about banking products such as micro-credit from a bank brochure / flyer or sms directly from Bank	66	34	100
		66%	34%	100%
27	Do you ever get information about banking products such as micro-credit from the exhibition event held by the Bank	48	52	100
		48%	52%	100%
28	Do you ever get information about banking products such as micro-credit from the exhibition event held by the OJK/Otoritas Jasa Keuangan as Financial Services Authority	46	54	100
		46%	54%	100%
29	Do you know the government's policy on microcredit	59	41	100
		59%	41%	100%
30	Do you agree if conducted training on financial management and knowledge of banking products	74	26	100
		74%	26%	100%
Total		**494**	**306**	
Microfinance Interest				
31	Are SMEs businessman willing to recognize and take advantage of banking services and products if a bank is easy to find	73	27	100
		73%	27%	100%
32	What SMEs businessman want to open saving bank account if administrative costs savings low	77	23	100
		77%	23%	100%
33	Are SMEs businessman interested to applying for a microcredit loan if the bank provides loans without guarantee	77	23	100
		77%	23%	100%
34	Are SMEs businessman willing to attend or listen to the socialization of bank services and banking products	74	26	100
		74%	26%	100%
35	If SMEs businessman want to know the bank better if more populist interior	71	29	100
		71%	29%	100%
36	Are SMEs businessman interested to applying for a microcredit loan if interest rate for microcredit low	72	28	100
		72%	28%	100%
Total		**444**	**156**	**100%**

Sources: Processed Primary Data, 2016

6.1.2 Credit Lending Variables

Variable credit lending was measured using 5 questions. Scores of the following five statements (Table 6.2):

Table 6.2. Respondent's Response of Credit Lending

Num	Questions	Score Answers					Amount
		SA	A	H	DS	SDS	
1	SME loans are very helpful for business development and easy requirement	14	52	27	7	-	100
		14%	52%	27%	7%		100 %
2	I could use funds from loans for the purchase of equipment to make it more complete, thus simplifying and speeding up the production process	9	55	27	9	-	100
		9%	55%	27%	9%		100 %
3	The term of the loans classified as long easing repayment	4	37	48	11	-	100
		4%	37%	48%	11 %		100 %
4	Microcredit interest rate offered is low and can be affordable	5	34	41	20	-	100
		5%	34%	41%	20 %		100 %
5	It has been very satisfied with microcredits	3	24	49	22	2	100
		3	24	49	22	2	100%
	Total	**35**	**202**	**192**	**69**	**2**	

Sources: Processed Primary data, 2016

Note:

1). Strongly Agree (SA). – Score 5
2). Agree (A). -- Score 4
3). Hesitate (H) -- Score 3
4). Disagree (DS) -- Score 2
5). Strongly Disagree (SDS) -- Score 1

6.1.3 Small and Medium Enterprises Development Variables

Variable for small and medium enterprises development was measured by using 4 statements. Scores of the statements are as follow (Table 6.3):

Table 6.3. Respondent's Response on Small and Medium Enterprises Development

Num	Questions	Score Answers					Amount
		SA	A	H	DS	SDS	
1	An increase in working capital turnover after getting microcredit	5	48	38	9	-	100
		5%	48%	38%	9%		100 %
2	After receiving micro credit an increase in operating profit	3	38	49	10	-	100
		3%	38%	49%	10%		100 %
3	My business sales increased because of the additional capital of microcredit	4	41	45	10	-	100
		4%	41%	45%	10%		100 %
4	With the microcredit improve my business production	6	41	40	13	-	100
		6%	41%	40%	13%		100 %
	Total	**18**	**168**	**172**	**42**	**18**	

Sources: Processed Primary Data, 2016

6.1.4 Additional Banking Services Variables

Variable for Additional Banking Services was measured using 10 statements. Scores of the statements are as follows (Table 6.4):

Table 6.4 Respondent's Response about Additional Services Banking

Num	Questions	Score Answers					Amount
		SA	A	H	DS	SDS	
1	Training on Business Management very useful for business communities Microcredit	6	56	35	3	-	100
		6%	56%	35%	3%		100 %
2	Training on Product Marketing very useful for business communities Microcredit	5	58	34	3	-	100
		5%	58%	34%	3%		100 %
3	Training on E-Marketing / Marketing online will increase the production of small and medium enterprises	6	54	39	1	-	100
		6%	54%	39%	1%		100 %
4	Desperately need help from the Bank to market the production generated by small and medium enterprises	2	43	50	5	-	100
		2%	43%	50%	5%		100 %
5	If banks helped market the production of SMEs, SMEs are willing to split the profits with the banks	1	35	58	6	-	100
		1%	35%	58%	6%		100 %
6	Information Technology Systems via SMS banking, ATM, Internet Banking is very helpful effectiveness of SMEs	11	50	36	3	-	100
		11%	50%	36%	3%		100 %

7	If the Bank provides services through the IT system would encourage SMEs to apply for the loan if the loan period has been completed	3	35	54	8	-	100
		3%	35%	54%	8%		100 %
8	If the Bank provides additional services to provide mentoring / training on business management, e-marketing, etc., as well as assisting in the marketing of SME products, would encourage SMEs to apply for the loan if the loan period has been completed	4	41	48	7	-	100
		4%	41%	48%	7%		100 %
9	More SMEs opt for a system of profit sharing rather than interest	3	53	38	6	-	100
		3%	53%	38%	6%		100 %
10	SMEs urgently need to protect His efforts Micro Insurance	15	35	42	7	1	100
		15%	35%	42%	7%	1%	100 %
	Total	**56**	**460**	**434**	**49**	**1**	**100%**

Sources: Processed Primary Data, 2016

6.1.5 Financial Inclusion Variables

Variable for Financial Inclusion is measured using 4 statements. Scores of the statements as follows (Table 6.5):

Table 6.5. Respondent's Response about Financial Inclusion

Num	Questions	Score Answers					Amount
		SA	A	H	DS	SDS	
1	Socialization is done by the bank regarding information about banking products in Indonesia has been good	3	50	40	7	-	100
		3%	50%	40%	7%		100 %
2	Socialization is done by the Government / institutions Microfinance / OJK concerning information about banking products in Indonesia has been good	3	44	41	12	-	100
		3%	44%	41%	12%		100 %
3	Exhibitions of products of SMEs by the government to help increase sales of products of SMEs	4	42	47	7	-	100
		4%	42%	47%	7%		100 %
4	Exhibitions of products of SMEs conducted by the Bank to help increase sales of products of SMEs	4	37	48	11	-	100
		4%	37%	48%	11%		100 %
	Total	**14**	**173**	**176**	**37**	**0**	

Sources: Processed Primary Data, 2016

6.1.6   Public Policy Variables

Variable of Public Policy is measured using two statements. Scores of the statements as follow (Table 6.6):

Table 6.6. Respondent's Response about Public Policy

Num	Questions	Score Answers					Amount
		SA	A	H	DS	SDS	
1	The government's policy for developing certain Small and Medium Industries through Microcredit has been very good	3	40	49	8	-	100
		3%	40%	49%	8%	-	100 %
2	The role of central government and local government is needed for business development of SMEs	8	42	39	11	-	100
		8%	42%	39%	11%	-	100 %
	Total	**11**	**82**	**88**	**19**		

Sources: Processed Primary Data, 2016

6.2   Data Analysis and Discussion

The testing of the hypothesis in this study is not eligible to be done using a parametric statistical test (using software's such as AMOS or Lisrel). However, if the observed sample does not suffice the minimum requirements, it can use parametric statistical tests SEM (*structural equation modelling*)[91]. The minimum sample multiplication is 5-10 indicators/instruments[92]. The number of indicators used in this study were 62 items of questions multiplied by 5 (10), the minimum sample must be met between 310 to 620[93]. Due to the minimum requirements in this research are not

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[91] The term SEM (Structural equation modeling) does not designate a single statistical technique but instead refers to a family of related procedures. Other term such as covariance structure analysis, covariance structure modeling, or analysis of covariance structure to classify these techniques under a single label (Rex B. Kline, Principles and Practice of Structural Equation Modeling, New York London, 2016 page 9)

[92] Rex B. Kline, Principles and Practice of Structural Equation Modeling, New York London, 2016 page page 14)

[93] Rex B. Kline, Principles and Practice of Structural Equation Modeling, New York London, 2016 page page 15)

met, the test will be performed using the statistical program SEM nonparametric, using PLC program or rather Smart-PLS (*Smart-Partial Least Square*)[94].

6.2.1 Validity and ReliabilityAnalysis

Validity and Reliability Financial Access

Validity test aims to determine the accuracy and precision of a measuring instrument in doing measuring function (Sekaran, 2006) in this study, it will be used to test the validity with *Confirmatory Factor Analysis* using the *software SPSS for windows* program version 20, where every item in the question must have a loading factor >0.50 and extracted clustered in group[95]. Results validity with *Confirmatory Factor Analysis* are as follows (Table 6.7):

Table 6.7

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,760
Bartlett's Test of Sphericity	Approx. Chi-Square	2178,846
	df	630
	Sig.	,000

Sources: Processed Primary Data, 2016

The results of analysis values *Kaiser-Meyer-Olkin* measure of sampling adequacy box KMO and Bartlett's Test amounted to 0.760 results show that this instrument is valid. KMO has exceeded 0.5. Bartlett's Test results, which shows the value of 2178.846 With the significant value of 0.000 so that it can be concluded that these instruments are qualified.

Based on the results of testing the validity of the obtained results that the distribution of data is extracted clustered in group and all items have a value of loading

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[94] PLS is classified as a type of non-parametric A Sabil Hussein, Business Research and Management using Partial Least Squares (PLS), University of Brawijaya 2015 page 1-29.

[95] Uma Sekaran (Aug 14, 2006). Research Methode for Business page 10.

factor >0.5, indicating that all the data is valid and feasible in testing at a later stage. Table 6.8 shows Construct Valitidy Testing Results.

Table 6.8

Construct Validity Testing Results

	Component				
	1	2	3	4	5
se1	,509				
se2	,568				
se3	,737				
se4	,631				
se5	,863				
se6	,615				
se7	,816				
se8	,550				
se9	,807				
se10	,749				
se11	,765				
se12	,582				
ae1					,783
ae2					,662
ae3					,603
ae4					,549
pe1				,742	
pe2				,551	
pe3				,581	
pe4				,538	
pe5				,521	
pe6				,685	
me1		,528			
me2		,559			
me3		,860			
me4		,609			
me5		,603			
me6		,519			
me7		,803			
me8		,525			
mi1			,657		
mi2			,769		
mi3			,673		
mi4			,669		
mi5			,545		
mi6			,615		

Sources: Processed Primary Data, 2016

Reliability Test (*Cronbach Alpha*)

Reliability is statistical testing procedures that were considered relevant to measure the extent of the reliability or the internal consistency of a research instrument. To test the reliability of used Cronbach Alpha using SPSS for windows 20, Sekaran (2006) states that the value of Cronbach Alpha can be said to be reliable if the value is >0.60. Variable reliability of the test results was processed using software SPSS for Windows version 20 obtained Cronbach Alpha value of each variable on large samples as follows (Table 6.9):

Table 6.9
Reliability Test Results

Variable	Cronbach's Alpha	Result
Financial Access		
SE (Self Exclusion)	0.916	Reliable
AE (Acces Exclution)	0.752	Reliable
PE (Price Exclution)	0.816	Reliable
ME (Marketing Exclution)	0.827	Reliable
MI (Microfinance Interest)	0.815	Reliable

Sources: Processed Primary Data, 2016

Based on the results in the above table, reliability test results obtained from the fifth dimension of the variable Financial Access are the followings: *SE* (Self Exclusion), *AE* (Acces Exclution), *PE* (Price Exclution), *ME* (Marketing Exclution) and *MI (Microfinance Interest)* had a Cronbach alpha values >0.60, which means that the instrument examined to uncover these five variables is declared as worthy instrument in this study or said to be reliable.

6.2.2 Validity Test *Outer Loading and Outer Weight*

Testing the model on the outer structural model was conducted to see the relationship between manifest in the form of variables constructs will be measured. Testing the validity of the application Partial Least Square includes two tests, namely:

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outer loading and *outer weight*[96]. More results from testing the validity will be described as follows (Table 6.10):

Table 6.10

Test Result Validity using SEM Program

Variabel	Outer Loading			Outer Weight		
	Original Sample	$T_{statistic}$	*p*	*Original Sample*	T_{value}	*p*
AE ← Financial Access	0.744	12.507	0.000	0.284	6.922	0.000
ME ← Financial Access	0.689	11.509	0.000	0.320	11.080	0.000
MI ← Financial Access	0.705	13.558	0.000	0.324	11.145	0.000
PE ← Financial Access	0.776	21.284	0.000	0.282	8.129	0.000
SE ← Financial Access	0.638	9.094	0.000	0.189	5.925	0.000
PP1 ← Public Policy	0.945	59.621	0.000	0.529	24.692	0.000
PP2 ← Public Policy	0.945	69.246	0.000	0.529	21.584	0.000
V1←Financial Inclusion	0.859	22.069	0.000	0.283	12.120	0.000
V2←Financial Inclusion	0.879	30.554	0.000	0.284	13.114	0.000
V3←Financial Inclusion	0.881	28.646	0.000	0.265	11.026	0.000
V4←Financial Inclusion	0.849	25.638	0.000	0.323	12.028	0.000
X1 ←Credit Lending	0.808	19.285	0.000	0.231	12.137	0.000
X2 ←Credit Lending	0.833	29.542	0.000	0.267	12.460	0.000
X3 ←Credit Lending	0.759	15.387	0.000	0.245	13.680	0.000
X4 ←Credit Lending	0.806	21.476	0.000	0.274	13.204	0.000
X5 ←Credit Lending	0.739	11.890	0.000	0.249	8.987	0.000
Y1 ←Small and Medium Enterprises Development	0.836	20.932	0.000	0.261	8.463	0.000
Y2 ←Small and Medium Enterprises Development	0.872	28.927	0.000	0.272	9.110	0.000
Y3 ←Small and Medium Enterprises Development	0.839	22.385	0.000	0.290	10.565	0.000
Y4 ←Small and Medium Enterprises Development	0.838	21.697	0.000	0.359	8.053	0.000
Z1 ←Additional Services Banking	0.770	10.106	0.000	0.101	4.639	0.000

[96] In the formative relationship model, outer weight for each indicator compared with each other to determine indicators that provide the largest contribution to a single construct. In the p value of 0.05 indicator with the smallest weights (t-statistic> 1.96). Besides the significance of weight value, the evaluation is done whether there multicollinearity on the indicator. To test it by knowing the value of Variance Inflation factor (VIF). VIF <10 indicates there are no multicollinearity (linear relationship between the independent variable in Multiple Regression Model).

Outor loading showed a correlation between the indicator with its constructs. Indicators with a low loading values shows that the indicators do not work on the model of measurement. loading the expected value of> 0.7.

Z10 ←Additional Services Banking	0.755	13.556	0.000	0.114	4.762	0.000
Z2 ←Additional Services Banking	0.799	14.363	0.000	0.107	6.503	0.000
Z3 ←Additional Services Banking	0.806	17.062	0.000	0.093	4.789	0.000
Z4 ←Additional Services Banking	0.715	14.487	0.000	0.137	5.314	0.000
Z5 ←Additional Services Banking	0.724	10.113	0.000	0.153	6.028	0.000
Z6 ←Additional Services Banking	0.779	17.254	0.000	0.145	7.880	0.000
Z7 ←Additional Services Banking	0.796	23.757	0.000	0.173	6.530	0.000
Z8 ←Additional Services Banking	0.837	25.169	0.000	0.168	7.198	0.000
Z9 ←Additional Services Banking	0.627	8.270	0.000	0.022	5.425	0.000

Sources: Processed Primary Data, 2016

Based on test results, confirmatory factor analysis (first order) shows all the indicators (five dimensions). Financial Access is declared *valid* because it has a value of $t_{value} > 1.96$ or a *probability value (p) <0.05*, both on *test validity, outer loading,* and *outer weight*. Therefore, we can conclude for the five dimension consisting Financial Access: *Self Exclusion, Acces Exclusion, Price Exclusion, Marketing Exclusion, and Microfinance Interest* otherwise can measure variables Financial Access *(Valid)*.

Based on the results of testing to measure and analyse Public Policy (PP), both indicators are declared *Valid* because it has a value of $t_{value} > 1.96$ or a probability value (p) <0.05, both on test validity, *outer loading* and *outer weight*. Therefore, we can conclude these two parameters can be used to measure variables *Public Policy/PP (Valid)*.

Based on the results of testing to measure and analyze Financial Inclusion (V), four indicators are declared *Valid* because it has a value of $t_{value} >1.96$ or a probability value (p) <0.05, both on test validity, *outer loading* and *outer weight*. It can be concluded four of these items can be used to measure variables Financial Inclusion/V *(Valid)*.

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Based on test results to measure and analyse Credit Lending (X) of the five indicators, all are otherwise *valid* because it has a value of t_{value} >1.96 or a probability value (p) <0.05, both on test validity, *outer loading* and *outer weight*. Therefore, we can conclude that all items can be used to measure variables Credit Lending/X *(Valid)*.

Based on the results of testing to measure and analyze the Small and Medium Enterprises Development (Y) of the four indicators, otherwise entirely valid because it has a value of t_{value} > 1.96 or a probability value (p) <0.05, both on test validity, *outer loading* and *outer weight*. Therefore, we can conclude that all items can be used to measure variables Small and Medium Enterprises Development/Y *(Valid)*.

Based on test results to measure and analyze Additional Banking Services (Z) of the ten indicators, otherwise entirely valid because it has a value of t_{value} >1.96 or a probability value (p) <0.05, both on test validity, *outer loading* and *outer weight*. Therefore, we can conclude that all items can be used to measure variables Banking Additional Services (Z).

6.2.3 Reliability *Average Variance Extracted* (AVE), *Cronbach Alpha*, and *Composite Reliability.*

Reliability was assessed by calculating the index of reliability of the used instruments *(Composite reliability, Average Variance Extracted (AVE)*[97]*, and Cronbach Alpha)* of SEM models[98]. The limit values are used to assess an acceptable level of reliability of 0.70, although the figure was not a measure that is "required/fixed". That is, if the research conducted exploratory nature, the value below 0.70 is still acceptable as long as it is accompanied by the empirical reasons seen in the exploration process. Nunnally and Bernstein (1994, in Ferdinand, 2005 page 193) provides a good guideline for interpreting reliability index. They say that in exploratory research, the reliability of which were between 0.5 to 0.6 is enough to justify a study.

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[97] Average variance extracted (AVE) is commonly used to assess convergent validity.

[98] The formula use Cronbach's alpha if all the measures had equal variance which would happen if all the measures were standardized. It can be used to determine the reliability of a test if more or less items are used.

Table 6.11

Reliability Testing Results on Structural Model

Variabel	AVE	*Alpha*	*Composite*
Additional Services Banking	0.582	0.920	0.933
Credit Lending	0.624	0.849	0.892
Financial Access	0.507	0.758	0.837
Financial Inclusion	0.752	0.890	0.924
Public Policy	0.894	0.881	0.944
Small and Medium Enterprises Development	0.717	0.869	0.910

Sources: Processed Primary Data, 2016

The calculation of the reliability of the above (Table 6.11) state that the reliability of the Additional Services Banking variable has an AVE Reliability value of 0.582, *Cronbach Alpha Reliability* of 0.920, and *Composite Reliability* of 0.933. *Credit Lending Reliability* variable has an AVE Reliability value of 0.624, *Cronbach Alpha Reliability* of 0.849, and *Composite Reliability* of 0.892. Reliability *Financial Access* variable has an AVE Reliability value of 0.507, *Cronbach Alpha reliability* is 0.758, and *Composite reliability* of 0.837. Reliability Financial Inclusion variable 0.752, *Cronbach Alpha Reliability* of *0.890*, and *Composite Reliability* is 0.924. Public Policy reliability variable has a value AVE reliability of 0.894, *Cronbach Alpha reliability* is 0.881, and *Composite reliability* is 0.944. Small and Medium Enterprises Development reliability variable has an AVE Reliability value of 0.717, *Cronbach Alpha Reliability* of *0.869, and Composite reliability of 0.910.*

These six variables studied had the *Reliability Construct* value greater than the limit that is used to assess a level of reliability that is 0.50 to 0.60[99]. Therefore, the items are **reliable** for measuring the six variables.

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[99] Uma Sekaran (Aug 14, 2006). Research Methode for Business

6.2.4   *Path Coefficients* (Hypothesis Testing Structural Model)

SEM/*Structural Equation Mode* analysis allows the calculation of the estimated regression equation set of simultaneous, multiple, and interconnected. The characteristics of the use of this model are the followings[100]:

(1) To estimate the double dependent interrelated relationship,

(2) Its capacity to make concepts that are not observed in the relationship as well as in determining the measurement error in the estimation process, and

(3) Ability to accommodate a set of relationships between the independent latent variables (exogenous) with the dependent variable (endogenous) and uncover the manifest variables.

It can be concluded that the analysis of *structural equation model* to estimate multiple regression equation is separate, but each has a simultaneous or concurrent relationships. In this analysis, it is possible to have multiple dependent variables, and these variables are enabled to become independent variable for other dependent variables. In principle, the structural model aims to examine the causal relationship between variables so that if one variable is changed, then a change in another variable [101].

The structural testing on the study was conducted using statistical software or Smart PLS (*Smart-Partial Least Square*) application v3, and the results is as follows (Figure 6.1):

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[100] Structural equation modeling (SEM) is a series of statistical methods that allow complex relationships between one or more independent variables and one or more dependent variables. Structural Equation Modeling (SEM), 2015, SAS/STAT User's Guide Version 8 page 1-15

[101] Structural Equation Modeling (SEM), 2015, SAS/STAT User's Guide Version 8 page 1-15

Figure 6.1 The Structural Model Testing using the Assistance smartPLS program

Variable	Indicator	
Financial Access as an exogenous variable **(first independent variable)**	a. Access Exclusion (AE) b. Marketing Exclusion (ME) c. Microfinance Interest (MI) d. Price Exclusion (PE)	e. Self Exclusion (SE)
Financial Inclusion as exogenous variables **(second independent variables)**	a. Financial Education (V1 and V2) b. Socialization Financial product by OJK, Government and MicroBanking (V3)	c. Exhibition Product by OJK, Government and MicroBanking (V4)
Public Policy as exogenous **(Third independent variable)**	a. Policy for OJK and the government of Indonesia (PP1)	b. Role of Government and Local Government to support SMEs & Microfinance (PP2)
Credit Lending as endogenous latent variables/ first dependent variable **(Mediation)**	a. Easy Requirements for Credit Loan Lending Applications (X1) b. Benefit of Credit Loan Lending (X2) c. The Term of Credit Loan Lending (X3)	d. Interest Rate Credit Loan lending (X4) e. Satisfied of Microcredit Loan Lending (X5)
Additional Banking Services as endogenous latent variables/second dependent variable **(Mediation)**	a. Training on Business Management (Z1) b. Training on Product Marketing (Z2,Z8) c. Training on E Marketing to promote SMEs Product (Z3) d. Need Help from bank to promote SMEs Product (Z4, Z5) e. Development IT System (Z6,Z7)	e. Reduce Interest Rate (Z9,Z11) f. Customer Protection (Z10)
Small and Medium Enterprises Developments endogenous latent variables **(Third Dependent Variable)**	a. Increasing Working Capital (Y1) b. Increasing Profit (Y2)	c. Increasing Sales Product (Y3) d. Improvement Business Production for sustainability SMEs (Y4)

Sources: by Author from processed primary data using smartPLS program, 2016

The test results using the structural model smartPLS assistance program seen in the picture above model are described in detail in the following table (Table 6.12):

Table 6.12

Hypothesis Testing Results

Variable	*Entire Sample Estimate*	*T-Statistic*	*Probability (p)*	Result
Additional Services Banking → Small and Medium Enterprises Development	**0.309**	**2.375**	**0,019**	**Accepted**
Credit Lending → Additional Services Banking	**0.475**	**6.987**	**0,000**	**Accepted**
Credit Lending → Small and Medium Enterprises Development	0.114	0.779	0.438	Rejected
Financial Access → Credit Lending	**0,407**	**5,669**	**0,000**	**Accepted**
Financial Access → Small and Medium Enterprises Development	0.046	0.489	0,626	Rejected
Financial Inclusion → Credit Lending	**0.267**	**2.232**	**0.028**	**Accepted**
Financial Inclusion → Small and Medium Enterprises Development	0.059	0.595	0.553	Rejected
Public Policy → Credit Lending	**0.283**	**2.269**	**0.025**	**Accepted**
Public Policy → Small and Medium Enterprises Development	0.232	1.979	0.051	Rejected

Sources: Processed Primary Data, 2016

The structural equation in this study are as follows:

$$\eta_1 = \gamma_1\xi_1 + \gamma_2\xi_2 + \gamma_3\xi_3 + \zeta_1 \dots\dots\dots\dots\dots\dots\dots (1)$$

$$\eta_2 = \beta_1\eta_1 + \zeta_2 \dots\dots\dots\dots\dots\dots\dots\dots (2)$$

$$\eta_3 = \gamma_4\xi_1 + \gamma_5\xi_2 + \gamma_6\xi_3 + \beta_2\eta_1 + \beta_3\eta_2 + \zeta_3 \dots\dots\dots (2)$$

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Information:

ξ_1	= Financial Access as an exogenous variable **(first independent variable)**;
ξ_2	= Financial Inclusion as exogenous variables **(second independent variables)**;
ξ_3	= Public Policy as exogenous **(Third independent variable)**;
η_1	= Credit Lending as endogenous latent variables / first dependent variable **(Mediation)**;
η_2	= Additional Banking Services as endogenous latent variables / second dependent variable **(Mediation)**;
η_3	= Small and Medium Enterprises Development as endogenous latent variables **(Third Dependent Variable)**;
$\gamma_{1,...6}$	= direct relationship with the exogenous variables of endogenous
$\beta_{1,2,3}$	= direct relationship endogenous variables and endogenous
$\zeta_{1,2,3}$	= *measurement error (residual)* endogenous.

The above table shows that the financial access affect the acquisition of credit lending by the coefficient value of 0.407 and the value of t-statistic for 5.669 with a probability value 0.000 <0.05. The analysis showed that the financial access is a variable that is considered important in influencing credit lending, with a value estimate of 0.407 which means that any increase will cause an increase in financial access credit lending amounted to 0.407.

Financial access does not have a significant effect on the increase of the Small and Medium Enterprises Development. It can be seen in the results of the analysis of the acquisition value of t-statistics for 0.489 to 0.626 probability value >0,05 and the estimated value of 0.046. The coefficient value (estimate) is 0.046, which means that any increase in financial access will lead to an increase in Small and Medium Enterprises Development amounted to 0.046. The research findings indicate that the financial access is not a variable that is considered important in influencing directly to the Small and Medium Enterprises Development.

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Financial Inclusion give influence on credit lending, it can be seen from the acquisition value of t-statistic of 2.232 with a probability value 0.028 <0.05 and the estimated value of 0.267, which means that any increase in Financial Inclusion will lead to an increase of 0.267 credit lending. The analysis showed that the Financial Inclusion is a variable that is considered important in directly influencing credit lending.

The study's findings also showed that Financial Inclusion does not give significant effect directly on the Small and Medium Enterprises Development, where it can be seen from the results of structural testing with the acquisition value of t-statistic of 0.595 with a probability value 0.553 >0.05 and the estimated value of 0.553. The analysis showed that the Financial Inclusion is not a variable that is considered important in influencing directly and significantly on the variable Small and Medium Enterprises Development.

Public policy has a direct significant effect on the credit lending as it can be seen from the acquisition value of t-statistic of 2.269 with a probability value 0.025 <0,05 and the estimated value of 0.283. The analysis showed that the public policy moves towards the better and it is considered an important variable in influencing credit lending, with the estimate value of 0.283. This means that any increase in public policy to a better direction will lead to an increase by 0.283 credit lending.

The findings of the study found that the results of public policy has no significant effect directly to the Small and Medium Enterprises Development, where it can be seen from the results of structural testing with the acquisition value of t-statistic of 1.979 with a probability value 0.051 >0,05 and the estimated value of 0.232. The analysis showed that the Public Policy is not a variable that is considered important in influencing directly and significantly on the variable of Small and Medium Enterprises Development or increasing public policy will not necessarily improve the Small and Medium Enterprises Development.

Credit lending has significant effect directly against additional services banking. It can be seen from the acquisition value of t-statistic of 6.987 with a probability value 0.000 <0.,5 and the estimated value of 0.475, which means that any increase will cause an increase in credit lending additional banking services of 0.475. The analysis showed

that the credit lending is a variable that is considered important in influencing directly on banking additional services.

The research findings found results that credit lending has no significant effect directly on the Small and Medium Enterprises Development, where it can be seen from the results of structural testing with the acquisition value of t-statistic of 0.779 with a probability value 0.438 >0,05 and the estimated value of 0.114. The analysis showed that the credit lending is not a variable that is considered important in influencing directly and significantly on the variable Small and Medium Enterprises Development or increased credit lending will not necessarily lead to an increase in the Small and Medium Enterprises Development.

Additional services banking has a direct significant effect on the Small and Medium Enterprises Development, it can be seen from the acquisition value of t-statistic of 2.375 with a probability value of 0.019 <0,05 and the estimated value of 0.309, which means that any increase in the additional services banking will lead to an increase in Small and Medium Enterprises Development for 0.309. Additional analysis showed that the banking services are the variables considered important in influencing the Small and Medium Enterprises Development directly.

The Empirical study in this research dissertation, using statistical software SPSS for Windows program and SEM non-parametric using the PLC program or known as Smart-PLS *(Smart-Partial Least Square)*, the result state that credit lending development is strongly influenced by the Financial Inclusion, Financial Access and Public Policy. The results of this study stated that financial inclusion, financial access and the public policy supported by the government directly give effect or can improve credit lending for SME business credit and if credit lending offset with improvement additional services for SMEs businessman, it can develop SMEs Business (Figure 6.2).

Based on Theoretical Study in this research dissertation, found that SMEs' Business can affect the microfinance industry in Indonesia and can make a significant contribution in supporting economic growth in Indonesia. Therefore, it is necessary to give the effort and attention to develop SMEs Business in Indonesia and appropriate strategies for the development of microfinance for SMEs' Business in Indonesia for the future. It has been explained in Chapter 2.

Figure 6.2. Empirical and Theoretical Analysis by Author.
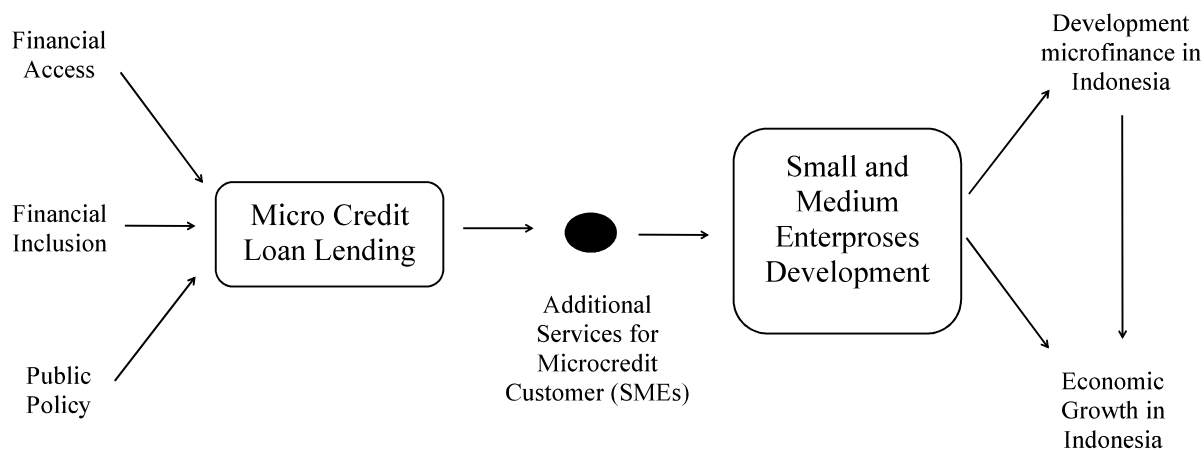
Source: by Author Analysis

Based on this research analysis, in order to be sustainable in the future, The Microfinance Industry such as Conventional Bank, Rural Bank, and MFIs must give attention to the sustainability of the customer SMEs business. The microfinance provider should not only give loans, but also give additional services for the sustainability of SMEs' business for the future. This is in accordance with the recommendations given by the author and it was described in chapter 3 (page 65-71) about the strategy to develop SMEs business through improvement additional services for microcredit customer.

CHAPTER SEVEN

THE STRATEGY TO DEVELOP

MICROCREDIT LOAN LENDING FOR

SMEs IN INDONESIA

THROUGH FINANCIAL INCLUSION

7.1.   Introduction

The success of economic development in a country is related to the financial system in a country. This condition is due to the bulk of transactions in the real economy through the banking system and financial institutions. The stability of a financial system can allocate resources efficiently through the intermediary function run by financial institutions. Through the allocation of appropriate resources, financial institutions can encourage the creation of economic opportunities that can benefit the whole society to accelerate poverty reduction in a country. The allocation of these resources will be effective if the public can easily access financial institutions to obtain capital.

Financial Inclusion is defined as the ability of an individual, household, or group to access appropriate financial services or products[102]. Financial Inclusion is the effort that aims to eliminate barriers of price and non-price, for the public to access financial services[103]. Inclusive finance is a national strategy to promote economic growth through equitable distribution of income, poverty alleviation, as well as the stability of the

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[102] Retrieved from Breckland Council, http://www.breckland.gov.uk/content/what-financial-inclusion
[103] Tulus Tambunan, ASEAN Development Bank Institute, Financial Inclusion, Financial Education, and Financial Regulation: A Story from Indonesia.

financial system[104]. Financial inclusion is emerging as a priority for policymakers and regulators in financial sector development, with an increasing number of countries introducing comprehensive measures to improve access and usage of financial services[105].

In 2014, The level of financial inclusion in Indonesia based on the Finance Index Data World Bank showed that Indonesia's Financial Index is 35.9 percent[106]. This condition shows that the Indonesian people's financial access to the financial system when compared with ASEAN Countries, is still low. Low access is due to low-income levels, operational procedures are complex financial institutions, the lack of financial education, administration costs are high and the financial institution and micro banking locations away from their residence.

Data based on Bank Indonesia in April 2016 showed that only 14.2 million SMEs have bank accounts and access to formal financial institutions[107]. Based on Central Bank of Indonesia's data in the Balance Sheet Household survey of 2011, it showed that the percentage of household savings in formal financial institutions and financial institutions is 48 percent[108]. Low access is due to the low level of income, the bank's operations cumbersome procedures, lack of financial education and banking, the high cost of administration bank, and bank locations away from their residence. Therefore, it is important to apply the inclusive financial strategy of encouraging economic activity for the community, especially SMEs who have not accessed the financial services, with encouraging equitable distribution of income and poverty alleviation and improvement of micro-credit to SMEs.

Finance Inclusive has become an important agenda at the international and national levels. At the International level, financial inclusion has been discussed in the forum of the G20[109], OECD[110], AFI[111], APEC[112] and ASEAN. Indonesia participates

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[104] Definition of Financial Inclusion from Central Bank of Indonesia is retrieved from the Booklet of Indonesian Financial Inclusion, 2014.

[105] The Definition of Financial Inclusion from World Bank, Financial Inclusion Strategies Reference Framework, June 2012.

[106] Based on World Bank's ,2014. Retrieved from http://datatopics.worldbank.org/financialinclusion /country/indonesia, access 1 January 2016.

[107] Based on data Central Bank of Indonesia Report, April 2016.

[108] Based on data Central Bank of Indonesia Report, 2011.

[109] G20 is is an international forum for the governments and central bank governors from 20 major economies.

[110] OECD is Organisation for Economic Cooperation and Development Forum

actively in the G20 forum. Meanwhile at the national level, the government's commitment has been given the President the Chairman Statement Summit 2011 and the commitment to have a national strategy for Inclusive Finance. Financial education is a primary factor on demand side for formal savings, loans, and insurance[113]. Indonesian Financial Literacy Survey (2009) states that the society's awareness on financial products and services in line with education level and society preference on financial products is highly affected by the promotion of the products over the safety guarantee of the savings[114].

Indonesia Financial Literacy Survey (2011-2013) states that the impact of Financial Education to SMEs is that the SMEs become [115]:

- Less likely to overcome delayed payment through banking payment
- More likely to document their income and expenditure
- More likely to plan expenditure and to separate business and household finance
- More likely to have better financial management

Based on this condition, Financial education for SMEs in Indonesia and to realize a sustainable Financial Inclusive program required coordination between Government, the OJK as FSA in Indonesia, Central Bank of Indonesia, ministries and relevant agencies in the development, prioritization and implementation of the program as well as the monitoring and evaluation of programs is needed. The coordination with the expected goal of increasing people's access to financial services can be achieved. This chapter describes information about the National Strategy for Financial Inclusion in Indonesia for SMEs microcredit, comparative Financial Inclusion between Indonesia and ASEAN country, and presenting a recommendation to strategy to develop microcredit for SMEs in Indonesia through the Financial Inclusion.

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[111] AFI is The Alliance for Financial Inclusion .
[112] APEC is Asia-Pacific Economic Cooperation.
[113] Cole S, Sampson T, and Zla B, 2009. Price and Knowledge? What Drives Demand for Financial Services in Emerging Market.
[114] Central Bank of Indonesia and LD-FEUI, 2009.Literacy and public understanding of the financial and banking products.
[115] Central Bank of Indonesia and LD-FEUI 2011-2013. Financial Literacy Research

7.2 (Kredit Usaha Rakyat) KUR as Financial Inclusion Model for Development of SMEs in Indonesia

Kredit Usaha Rakyat (KUR) can be used as a model in financial inclusion because one of the objectives of KUR is to provide easy finance access to the micro, small and medium enterprises. Indonesia as a member of the G20 does not only serve to keep the growth in developing countries, but also how developing countries in case of a global crisis whose effects are quite deep find solutions together. In 2012, Indonesia signed a declaration on Financial Inclusion cooperation with Mexico and Chile[116]. Financial Inclusion who have applied in Indonesia as Kredit Usaha Rakyat (KUR) and the Bank's role in channelling KUR BRI could be a model of inclusive financial management in the world. To improve access to capital for the community, the Financial Services Authority (OJK) organizes various programs of work that aims to create an inclusive financial system. Efforts to create an inclusive financial system should be done in an integrated manner ranging from simplifying the operational procedures of financial institutions, improving financial education, and increasing technological innovation finance. Financial inclusion can be done by optimizing the programs of government capital assistance to community programs such as the Kredit Usaha Rakyat (KUR).

Kredit Usaha Rakyat (KUR) is an aid program working capital loans, and investment loans are reserved exclusively for productive business units through a credit guarantee program. Individuals, groups, and cooperatives can access this program with a maximum credit of IDR 500 million, including micro KUR (lending up to IDR 20 million) granted to micro, small, medium and cooperative enterprises, which has a productive business and will receive assurance from the company's underwriters[117].

The data from the Ministry of Finance until the end of October 2016 shows a total disbursement of KUR has reached IDR 75 trillion while the total debtors or credit SMEs offender has taken advantage of as much as 3,5 million financing facility

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[116] Declaration by President Susilo Bambang Yudhoyono at a summit of leaders of the G20 member states that took place in Los Cabos, Mexico, 17 to 19 June of 2012.
[117] Annual Report The Coordinating Ministry for Economic Affairs The Republic of Indonesia, 2015.

debtors[118]. KUR fund distribution is done through cooperation with seven Bank executives. KUR scheme combines two types of products namely products of the executing bank financing and insurance products from insurance companies. Any businesses that need capital and have no collateral can do the filing of capital to banks executing simultaneously submitted to the insurance company guarantee (Jamkrindo and Askrindo[119]). Once approved, the insurance company will provide a guarantee to the bank on behalf of the entrepreneur and the bank will channel capital to businesses.

KUR program distribution scheme would provide advantages for implementing Bank or the businesses. The executing Bank may provide financing without worrying about the risk of default because of the guarantee of the insurance company, while businesses will obtain financing to expand its business without having a guarantee.

7.3   National Strategy for *Financial Inclusion* di Indonesia

The success of national development is marked by the formation of a stable financial system and provides benefits to all levels of society. In this case, financial institutions make an important role through the intermediary function to promote economic growth, equitable income distribution, poverty alleviation, and the stability of the financial system. Often, however, the rapid development of the financial industry is not matched by the access to adequate financial services. Also, the access to financial services is a fundamental prerequisite for the community to be involved in the economic system in the region.

Public access to financial services in Indonesia is categorized as moderate compared to other developing countries. Public access to financial services in Indonesia is relatively better than the two emerging giants, India, and China, but lower than Thailand, Malaysia, and South Korea[120]. This condition means there are many opportunities to make the financial system more inclusive and provide social advantages. Access to financial services is a complex problem that includes the public as consumers

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[118] Monthly Data (October 2016), The Coordinating Ministry for Economic Affairs The Republic of Indonesia.

[119] Jamkrindo and Askrindo is insurance company to give guarantee for KUR customer.

[120] Author Study, Access to financial Services and Financial Inclusion Agenda around the world (2011), The World Bank page 1-55.

and financial institutions as producers. It requires a multi-dimensional approach to improving access to the financial system. In economic development in Indonesia, banking makes an important role as an engine of activity due to financial inclusion Indonesian banks have a share of 75,09 percent of activity in the financial markets for SMEs in Indonesia[121]. However, financial inclusion is not only the task of Bank Indonesia, but also the OJK and the Government to open access to financial services to the broadest.

Financial Inclusion is a national development strategy to promote economic growth through equitable distribution of income, poverty, and financial system stability. The strategy centers on this community need to target groups that experience barriers to accessing financial services. National Strategy for Financial Inclusion explicitly have a target group with the greatest need or have not been met by financial services, the three categories of the population (the poor in low-income, working poor/poor productive, and the near-poor) and three cross-category (migrant workers, women, and residents of disadvantaged areas).

World Bank (2010) reveals there are at least four types of financial services that are considered vital to people's lives, the fund storage services, credit services, insurance services, and payment systems including pension funds. The fourth aspect is the fundamental requirement that must be owned by each community to obtain a better life. Increased public access to financial institutions is certainly a complex problem and requires cross-sectoral coordination involving banking authorities, financial services non-bank, Ministry and other institutions concerned with poverty alleviation efforts. Therefore, the necessary comprehensive policies become complete as a National Financial Inclusion Framework. In 2014, The Government of Indonesia makes a National Strategy for Inclusive Finance, where the inclusive financial strategy is outlined in the six pillars. The pillars are Financial Education, Public Finance Facility, Financial Information Mapping, Policy/Regulatory support, Intermediation and Distribution facilities, Consumer Protection. Financial Inclusion Strategy in Indonesia is shown in Figure 7.1.

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[121] See Chapter 3 page 61

These six pillars are then translated into programs that have been adapted to the target groups and categories of the population conducted by Bank Indonesia and the Ministry and the relevant Institute. Various initiatives have been implemented by the Ministry and the Institute related to the implementation of the National Financial Inclusion Framework. This condition shows the commitment of various ministries and relevant Institutions to seek actively to implement plans and upcoming programs relating to the development Financial Inclusion in Indonesia.

Figure 7.1. Financial Inclusion Strategy in Indonesia

Source : Central Bank Indonesia Data Annual Report, 2015

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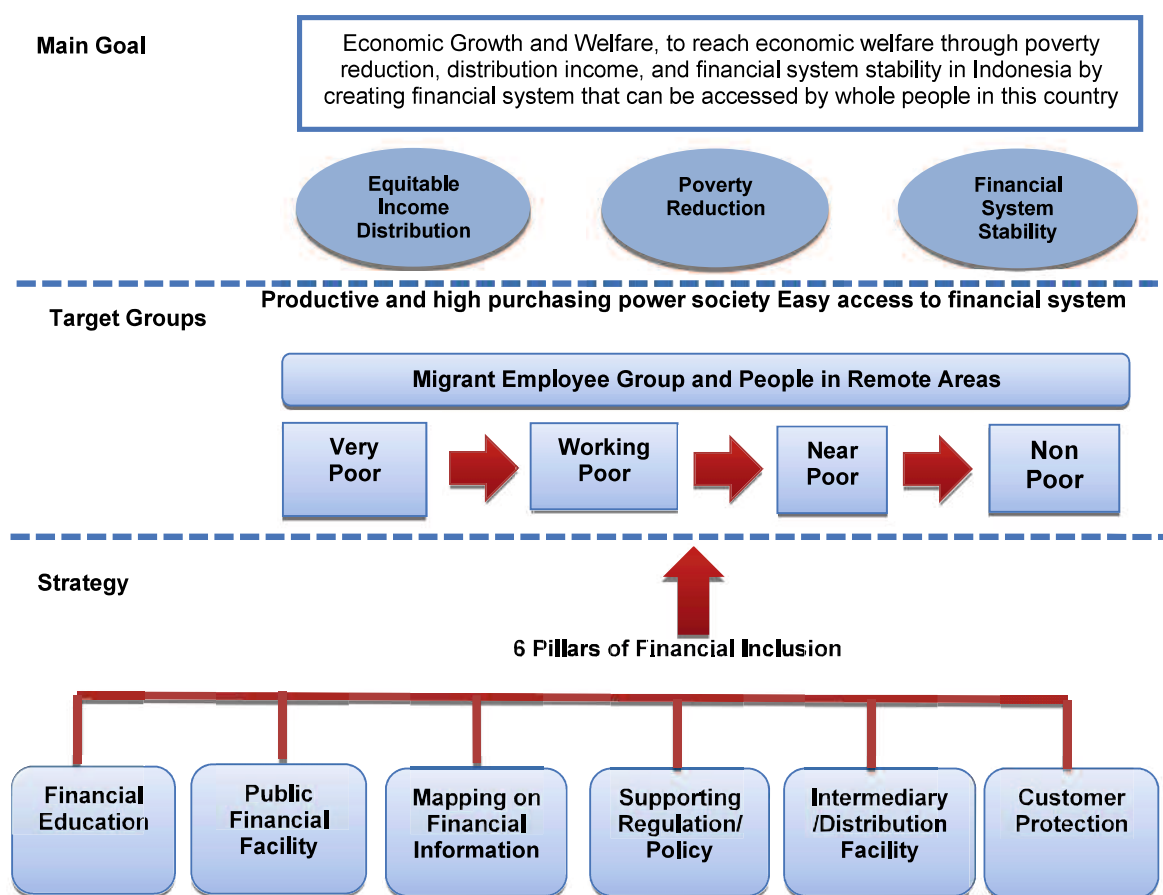
The Financial Inclusion Strategy gives prominence to the concept of providing financial services based on the different needs of specific categories of the population. While the financial inclusion strategy covers all segments of the population, it explicitly targets those groups with the greatest need or unmet demand for financial services. Therefore, it is particularly important to understand the different segments of the population, making sure that all key segments are taken into consideration.

The Strategy distinguishes three segments of the population (low-income poor, working poor and near-poor) and three cross-cutting categories (migrant workers, women, and people living in remote areas). These categories are consistent with those used by BPS. Table 7.1 below describes the different features distinguishing low-income poor, working poor and near-poor, based on their financial capacity and about each of the main financial services considered in the strategy.

Table 7.1 Characteristic of Targeted Groups

Financial Capacity/Target	Low-Income Poor	Working Poor	Near-poor
Ability to Save	No ability to save at all or just very small amounts but with no access to any saving services	Have ability to save part of the income generated through their activities. Saving mostly informally	Some ability to save with access to formal banks
Access to credit	Not able to repay	Access to informal credit. Able to repay with non-traditional collateral	Some access to both formal and informal sources. Able to repay with collateral
Need for Insurance	Highly exposed to personal and community-level shocks	Have some buffers but still might be heavily affected by shocks	Have wider range of instruments to cope with risk
Money transfer needs	Receiving remittances from MW (Migrant Worker) family members	Need for remittances as well as possibility of transfer money through mobile devices	May need to operate bank transfers, bill payments
Financial Literacy	None	Moderate	Moderate
Financial Literacy	None	Limited	Limited

Source: Central Bank Indonesia Data Annual Report (2015)

Bank Indonesia supports the implementation of the National Strategy for Inclusive Finance through the following roles:

1. Coordinate the activities of the inclusive finance with the ministry/ agency. To coordinate with the ministries/agencies involved in the planning and implementation of the inclusive finance program.

2. Map the potential of the region as a basis for determining the priority programs and financial activities inclusive. Mapping potential areas among others can be carried out in the economic sector, the beneficiaries, and stakeholders.

3. Establish priority programs and financial activities are inclusive. Determine the program and priorities of global finance activities to be conducted after coordination.

OJK (Financial Services Authority) program to improve Financial Literacy is shown in Table 7.2 below.

Table 7.2 Priorities and Financial Literacy Programs

Priorities	2014	2015	2016
Target	Housewives MSMEs	Students Professional Workers	Employees Retirees
Program	Education and literacy Campaign	Education and Literacy Campaign	Education and Literacy Campaign Reviewing Education and Literacy Infrastructure
	Developing Education Infrastructure	Developing Education Infrastructure	Conducting National Literacy Survey Evaluating Financial Literacy Program

Source: OJK (Financial Services Authority) Annual Report, 2015

7.4 Implementation of the National Strategy

Various initiatives have been implemented by ministries/agencies in order to implement strategy for Inclusive National Finance. This condition shows the commitment of various ministries/agencies to seek actively to implement plans and upcoming programs related to the national strategy of financial inclusion. The road map for the implementation of the initiative is divided into an inclusive financial activity programs as well as programs that are an immediate solution (quick wins). Table 7.3 shows key financial products mapped against targeted groups.

Table 7.3 . Key Financial Products Mapped against Targeted Groups

	Low-Income Poor	Working Poor/SME	MWs (Migrant Worker)	Remote Area	Non-Poor
Saving	No Frills (Tabunganku)		(Migrant Worker) Saving (Limited)		
	Basic Accounts				
Credit		Cluster Program	KUR TKI/Migrant Worker Credit Program		
		PNPM			
		KUR			
		Linkage Program			
		Credit Rating and Promotion of Credit Bureaus			
		Establishing local credit guarantee companies			
		Value Chain Financing			
		Business Development Support			
Saving+Credit	Replication of Innovative Scheme based on CSR				
	Agent Banking				
	Revisiting KYC Requirements for small value customers				
Insurance	Jamkesmas (Healthy Guaranty for poorpeople)		TKI Insurance/Migrant Worker Insurance		
	Micro-Insurance				
Saving+Credit+Insurance	Bundle Insurance Program (Credit/Saving+Insurance)				
Transfer facilities	Promotion expansion of ICT based distribution methods & possible implementation				
	Mobile Money				Mobile Banking
Financial Education	Let's Go to Bank				
	Financial Education by Local Government		Financial Education Training for Women and Families		
Financial Identity	Financial Identity Number				
Regulation	Enabling Regulatory Environment				

Source: Central Bank Indonesia Data (2015)

7.5   ASEAN Financial Inclusion

The leaders of the countries of Southeast Asia have called for the formulation of a strategic plan to accelerate and realize the vision of doubling the Financial Inclusion in the ASEAN region by 2020[122]. A regional approach for Financial Inclusion has been identified as one important factor for national development in many ASEAN countries. Also, it has also become an important strategy to support the broader goal of regional economic integration as contained in the blueprint of the ASEAN Economic

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[122] Hadi Soesastro, (March 2008), Implementing ASEAN Economic Community (AEC), Centre for Strategic and International Studies page 47-58.

Community (AEC). Financial sector deepening is one of the main objectives in the AEC blueprint. It primarily affects the capital and capacity constraints on the financial system in some ASEAN countries, such as Cambodia, Laos, Myanmar and Viet Nam (CLMV). However, this must be done in parallel with the ASEAN countries that its Financial Inclusion has been established through inclusive growth and equitable development. Globally the increased range of financial services and commitment to Financial Inclusion has managed to push and accelerate the Financial Inclusion achieved. This condition is presumably in line with the start of the AEC in 2015. Therefore, the year 2014 became a decisive milestone because this year is the end of the Millennium Development Goals (MDGs) and the beginning of the initiative Post-2015 Development Agenda[123]. Strengthening ASEAN cooperation will be instrumental in defining and implementing regional development framework post-2015 relations regional cooperation, will become the bridge between global goals and national interests. Figure 7.2 shows the percentage of population aged 15 and over (15 +) who have accounts at formal financial institutions.

Figure 7.2. Percentage of population aged 15 and over (15+) who have accounts at formal financial institutions
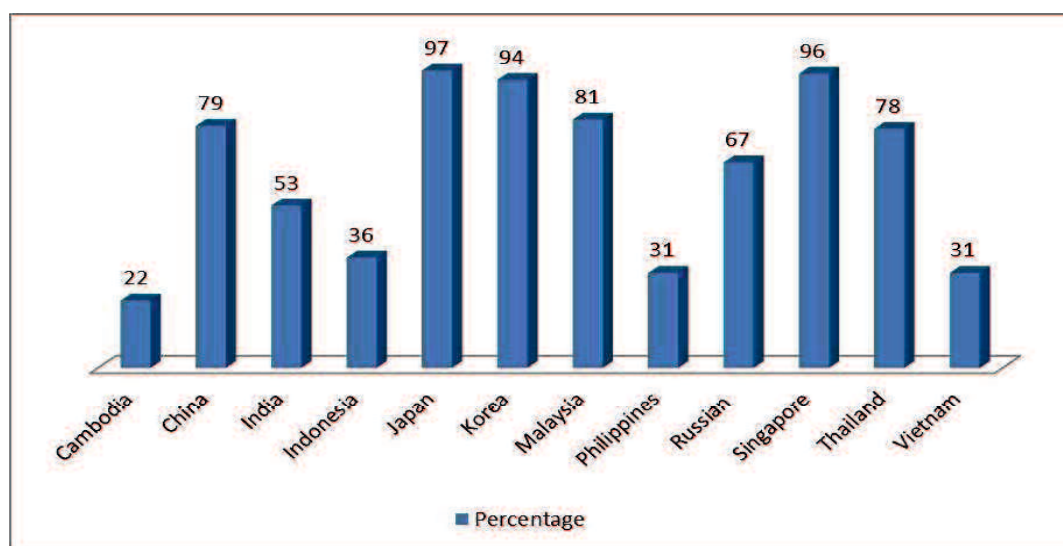
Source: Data processed by Author based on *Global Financial Inclusion Database* (2014), access 27th January 2016.

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[123] Asian Development Bank Institute, The ASEAN Economic Community(October 2013), Progress, Challenges, and Prospect, Page 2-38.

According to the UN Capital Development Fund (2014), in the context of achieving the MDGs, the ASEAN region as a whole has achieved a success that is taken into account. However, inequality (the gap) is still going on between the countries in the region, and poverty still plagues some countries. Presumably, there is still a significant development gap between rich countries and poor countries in the ASEAN region. UN Capital Development Fund (2014) noted the differences in the economic and financial market conditions in each ASEAN member countries. Especially when viewed from the low ratio of financial assets to GDP that reflects the size and competitiveness of the country's financial sector. In general, these conditions reflect the diverse challenges faced to achieve the vision of the AEC as a region highly competitive market and production base in the global economy. UN Capital Development Fund (2014) emphasizes the urgency of financial regulatory reform on a large scale in the context of financial sector development and create opportunities for Cambodia, Laos, Myanmar and Viet Nam (CLMV) countries to make efforts in financial deepening their financial markets[124]. Figure 7.3, show Financial Assets Ratio to GDP.

Figure 7.3. Financial Sector Assets Ratio to GDP
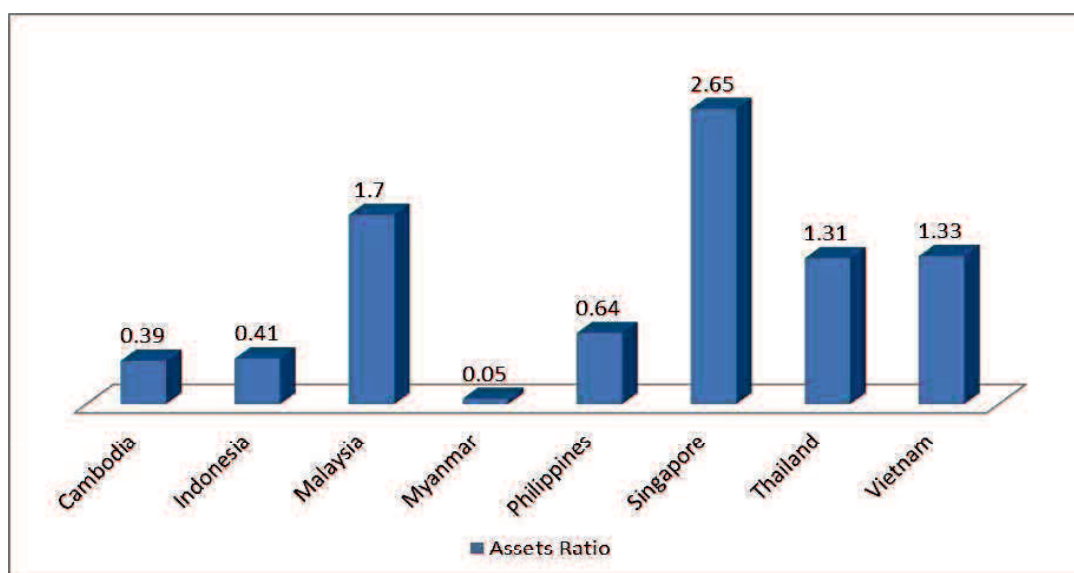
Source: Data processed by Author based on *Global Financial Inclusion Database* (2014), access 27th January 2016.

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[124] UN Capital Development Fund (2014). *Doubling Financial Inclusion in the ASEAN Region by 2020*, Asia Pacific Regional Centre (APRC), Bangkok

Zhuang et al. (2009) explain that a significant gap in economic size and structure occurs between the CLMV[125] countries and other countries in the region. To overcome the challenges faced by the financial markets in the CLMV countries would attempt deepening financial sector can play an especially important role in accelerating the achievement of Financial Inclusion.

Geographical conditions ASEAN countries create good prospects for economic development that is driven by the high volume of intra-regional trade and capital flows in the region. The strategic position of the ASEAN region is also affected by growth centers in other regions, such as China, Japan, and Korea, which encourage the formation of East Asian cooperation pillars of the ASEAN Plus Three (ASEAN + 3).

Demirguc-Kunt (2005) explains that increased public access to the financial services sector is not only pro-growth but also pro-poor, reducing income inequality and poverty. Studies in several countries show that countries that have formal financial system healthy and efficiently able to decrease the level of income inequality and poverty rates relatively quickly. Degrees of Financial Inclusion in a country reflects the complexity between demand and supply in the country's financial markets. To establish the financial sector by the request would be required a deep understanding of the needs of the community, innovations, appropriate and well targeted, and necessary regulation[126] .

The number of savings in some ASEAN countries is relatively high, where the loan becomes a product of financial services most frequently used. However, when viewed from the saving rate and the number of bank accounts in Indonesia, it reflects the tendency for people to choose to use informal and non-bank financial services as service providers[127]. The condition according to the study by Collins et al. (2009) shows that low-income people tend to use informal financial institutions products[128]. This

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[125] CLMV is Cambodia, Laos, Myanmar and Viet Nam Country
[126] Beck, Demirguc-Kunt dan Levine (2007), Finance, Inequality and the Poor: Cross-Country Evidence, Journal of Economic Growth 12(1): 27-49.
[127] See Picture 7.2 page 145 and Picture 7.4 page 148. Indonesia still low if compared with another country.
[128] Collins, Morduch, Rutherford, dan Ruthven (2009). Portfolios of the Poor: How the World's Poor Live on $2 a Day, Princeton University Press, New Jersey.

indicates that most people are not entirely outside the formal financial system, only they may be outside the reach of formal financial markets or underserved by products supplied by the official financial sector. Figure 7.4 shows the percentage of population aged 15 and 15+ who have saving.

Figure 7.4. Percentage of population aged 15 and over (15+) who have savings

From the supply side of financial services, some banks in many countries in the ASEAN region have some differences, particularly regarding the availability of banking services. UN Capital Development Fund (2014) pointed out the number of the bank account holder per 1000 people in Cambodia is only 108, of which the value is lower than the average for low-income countries in the Sub-Saharan region of Africa. Striking differences also occurred in the number of ATMs per capita in which CLMV countries have less than 10 percent of the number of ATMs in Thailand. Those figures illustrate the many obstacles faced by most low-income people in reaching the location of banking services, ATMs, or any other banking services. Finally, many of them prefer the form of other services provided by informal financial institutions, although sometimes more expensive.

UN Capital Development Fund (2014) confirms that the Financial Inclusion strategy to develop in the region should pay attention to the political and economic

conditions in each country and between ASEAN member countries, so as to maximize the measures taken to accelerate the process of Financial Inclusion. It certainly makes the application of international best practice as a solution must be adapted to the political and economic environment of each region. Figure 7.5 shows the Financial Inclusion Indicators in ASEAN.

Figure 7.5. Financial Inclusion Indicators in ASEAN (Percentage of population aged 15 years and above)
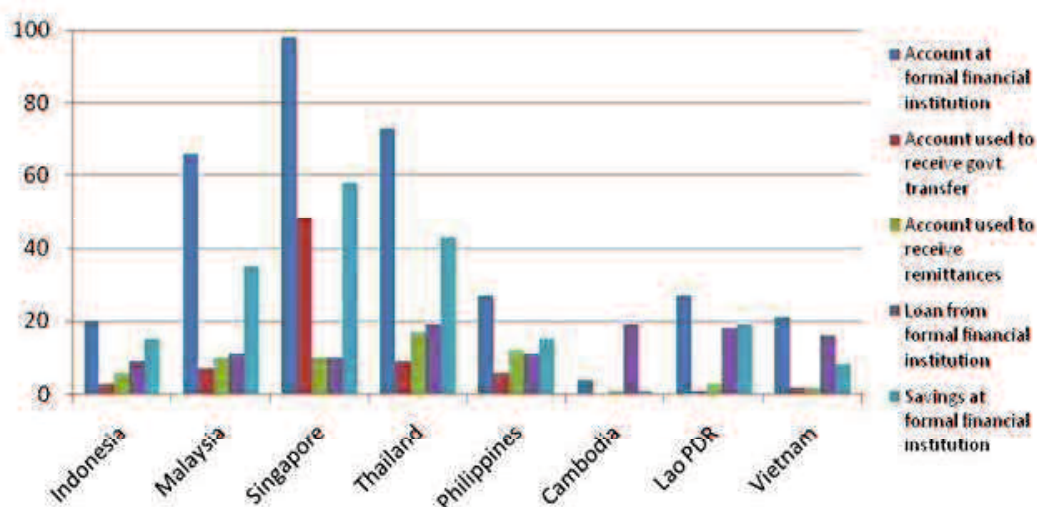
Source: Data processed by Author based on *Global Financial Inclusion Database* (2014), accessed 27th January 2016.

7.6   Recommendations

In order to encourage increased use of financial services by the public, would need a policy to address the market failure caused by asymmetric information and abuse of power, foster innovation of financial services in order to minimize the costs to consumers and producers; as well as providing financial education and consumer protection so that people can determine the financial products that fit their needs and avoid losses. Governments of Indonesia can reduce the impact of market failures and encourage Financial Inclusion by establishing the legal and regulatory framework that is appropriate, supporting the development of the business climate, promoting healthy

competition and fair, as well as facilitating a broad range of business schemes to encourage Financial Inclusion.

Technological advances promise to expand Financial Inclusion. Transaction costs, however, can be a barrier for Financial Inclusion when the financial services provider suffer losses due to serving low income consumers. Technological innovations, such as mobile banking, internet banking, and credit/debit card can help reduce transaction costs in the financial system. However, the benefit of technological innovation for the development of Financial Inclusion would greatly depend on the level of financial sector development, market size, income and social structures, and the availability of supporting infrastructure. Figure 7.6 shows the recommendations on the strategy for the development of micro credit lending for SMEs in Indonesia through Financial Inclusion.

Figure 7.6. Strategy for the Development of Micro Credit Lending for SMEs in Indonesia through Financial Inclusion
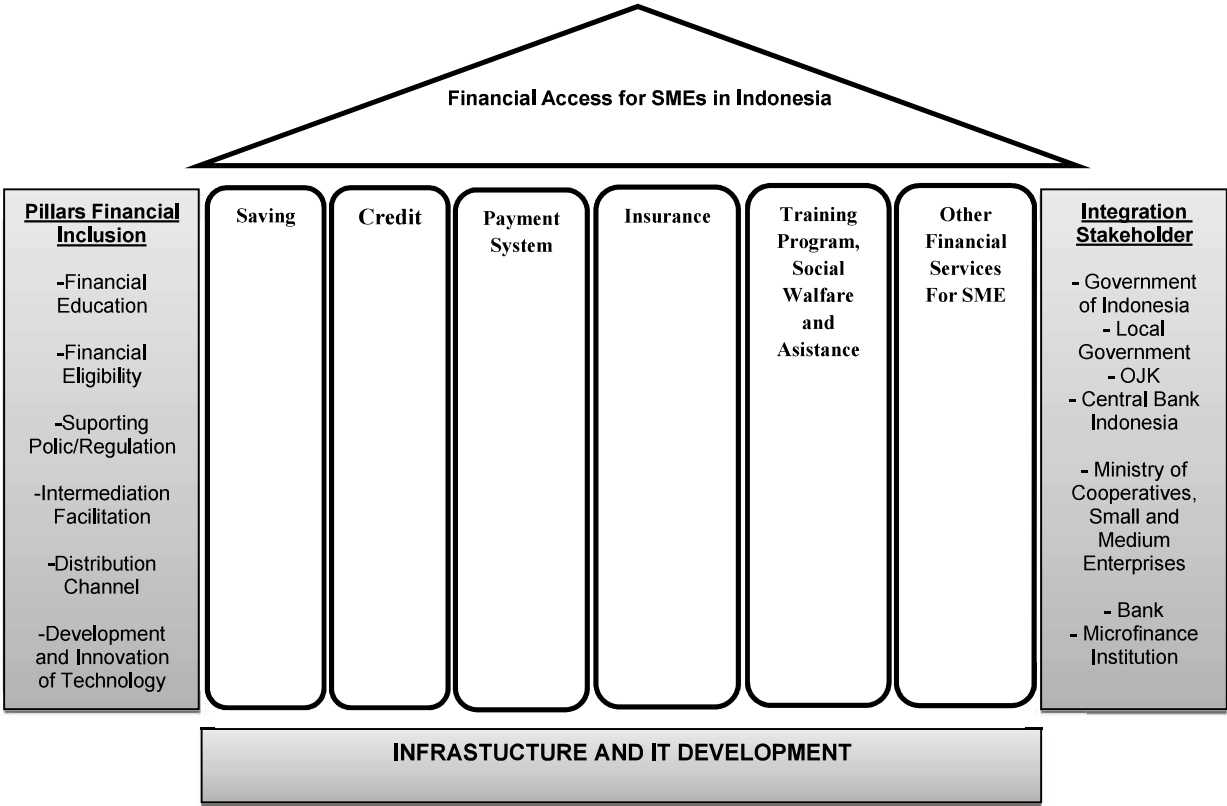
Source: Author's Recommendations

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Financial products should be designed by market conditions, customer needs, and could be a solution to the problem of growing to boost the level of use of financial services. Adjustments establishment and distribution channels in the financial industry can also improve Financial Inclusion by reducing the cost of financial services. Government regulations can affect product design and creation in the financial sector. Therefore, the government must be able to create a balance between maintaining economic stability and provide a space for the advancement of innovation in the financial sector to bring greater Financial Inclusion.

Some findings indicate that the government has a role in determining the standard of transparency, regulate aspects of doing business, and monitoring the effectiveness of the consumer protection mechanisms. The regulation of the financial system should be separated with rules on consumer protection. Competition is also an essential part of consumer protection because it creates mechanisms of punishment and reward for the perpetrators of the financial sector in the financial markets as well as giving consumers the option to get the best service.

Governments can also provide subsidies to improve people's access to financial services and take some policies to encourage Financial Inclusion. However, often it resulted in high debt levels, especially in rural areas. Debt restructuring would be required to avoid a default and to mitigate risks due to moral hazard. To develop financial literacy, the Government of Indonesia do not only focus on financial education for migrant employee group and people in remote areas but make and can implement Financial Education for SMEs Business, and also Financial Education for student and children to foster the entrepreneurial spirit for the young generation in Indonesia.

The government can also make training program for SMEs' Entrepreneurs to develop Financial Literacy about micro credit product, the requirement of micro credit, micro insurance, to develop micro credit for SME in Indonesia. Also, to make National Campaign Program and make regulation of Multi-licensing for banks to improve the effectiveness of banking operation. Make Branchless Banking Guiding Principle to support the implementation of branchless banking

7.7   Conclusion

The level of financial inclusion in Indonesia based on the Finance Index Data World Bank (2014) shows that Indonesia's Financial Index stood at 35.9 percent. This condition shows that the Indonesian people's financial access to the financial system, when compared with ASEAN countries, is still low. Indonesia as a member of the G20 not only served to keep the growth in developing countries, but also how the developing countries in case of a global crisis, whose effects are profound enough, need to find solutions together.

Inclusive finance is a national strategy to promote economic growth through equitable distribution of income, poverty alleviation, as well as the stability of the financial system. The level of financial inclusion in Indonesia is still in low need for efforts to encourage the increased use of financial services by the community, so we need a policy to address the market failure caused by asymmetric information and abuse of power; encourage innovation of financial services in order to minimize the costs to consumers and producers; as well as to provide financial education and consumer protection, so that people can determine the financial products appropriate to their needs and avoid losses. Governments can reduce the impact of market failures and encourage Financial Inclusion by establishing the legal and regulatory framework that is appropriate, supporting the development of the business climate, promoting healthy competition and fair, as well as facilitating a broad range of business schemes to encourage Financial Inclusion. To realize a sustainable, inclusive financial program required coordination between the OJK, Bank Indonesia, Banks, Microfinance Institutions, Ministries, and related agencies in the development, has to prioritize and implement the program as well as to conduct the monitoring and evaluation of programs.

SMEs Business has a role in improving the economy growth, so the government of Indonesia must have appropriate program to increase Financial Inclusion for SMEs business because financial Inclusion can influence micro credit lending, in accordance with the results of empirical study and already described in chapter 6 (page 114-134).

CHAPTER EIGHT

DISCUSSIONS AND CONCLUSIONS

8.1.   Discussions on Findings and Conclusions.

Indonesia has the potential market to develop microfinance through micro business enterprises with a range of commercial banks and over 60,000 MFIs, more than 28.51 million poor people – or 11.07% from Indonesia's total population of 257,563,815 people – and more than 57.1 million (Micro Enterprises) representing some 98.77% of the total of all businesses and contributing no less than 59% of the GDP growth in 2015[129].   Despite this progress, the Central Bank of Indonesia's report in July 2016[130] identifies that Indonesia only 14 million people have formal accounts for microcredit. Currently, many people in Indonesia do not have adequate access to the bank financing when they need to grow their businesses, particularly in rural areas and there is lack of training for micro businesses and poor people. To that end, Bank Indonesia as the Central Bank issued a regulation that requires banks to have at least 20% of their loan portfolio dedicated to micro loans by 2018 opening up new opportunities to further grow the sector[131].

Microfinance business competition in Indonesia is not only in price competition, but also non-price competition such as speed of service, networks access, and, of course, the quality of service. Non-price competition in practice is more focused on network expansion, product features, services, and the empowerment of social capital. Financing for SMEs tends to be dominated by the banking sector, both by Conventional Banks and Rural Banks/BPR in Indonesia. Based on the Central Bank of Indonesia Data Statistics and OJK/FSA in April 2016, the total of SMEs' bank account

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[129] Based on data from Ministry of Cooperatives and Small and Medium Enterprises Republic of Indonesia Report and Data from the presidential staff report, 2015

[130] Based on data from Central Bank of Indonesia, July 2016..

[131] Based on the Central Bank Indonesia Regulation number 14/22/PBI/2012 Article 2.

is 14,250,388 or 24.91% from the total of 57,189,393 units of SMEs in Indonesia. Therefore, there are 75.09% of SMEs Micro Credit financing opportunities in Indonesia who have not got access to banking, so Indonesia has big opportunities to develop microfinance through SMEs Business.

Based on Central Bank of Indonesia data statistics in March 2016, the percentage of SMEs' loan lending is dominated by conventional bank, SMEs loan lending from Rural Bank only 4,9% of Total SMEs loan lending, this conditions as challenges for Rural Bank to develop microcredit for SMEs.

Indonesia has a long history of microfinance, but the development of microfinance is still slow when compared to the existing potential market. However, the Indonesian government continues to make efforts to improve the microfinance in Indonesia. The Law act 21 of 2011 on the Institute of *Lembaga Otoritas Jasa Keuangan* or OJK as a Financial Services Authority Institution makes Indonesia to have a new independent agency for the regulation and supervision to be integrated to the overall activity in the financial services sector including micro-finance sector. OJK is expected to help the government of Indonesia to develop microfinance sector, and as a new institution it faces challenges and problems in developing the microfinance sector. Microfinance is one of the financial business sectors, and the financial sector is the "centre" of the system in an economy. The failure of the financial sector may weaken the performance of the entire system in the economy. In Indonesia, many developing Microfinance Institutions that conduct business activities in finance are much helpful to the community and small business. Microfinance Institutions need to develop, especially as Institutional, its legality, and it needs appropriate supervision and monitoring system to improve the economy of the community and small business. Indonesia is in a new era for this sort of monitoring system financial sector. The Law Act, No. 1 of 2013, gives full authority to the OJK (*Otoritas Jasa Keuangan*) in licensing, regulations, monitoring and supervisions of MFIs.

Based on the data research in chapter 6 of this dissertation, using SEM/*Structural Equation Model* analysis allows the calculation of the estimated regression equation set of simultaneous, multiple and interconnected from SMEs Business data questionnaire, the author can make the conclusion that the factors which

will give affect the SMEs Credit Lending and the development of SME are as follows (Figure 8.1):

Figure 8.1 The factors can affect the SMEs Credit Lending and the development of SMEs

- - - - - No give significant effect
————— Give significant effect
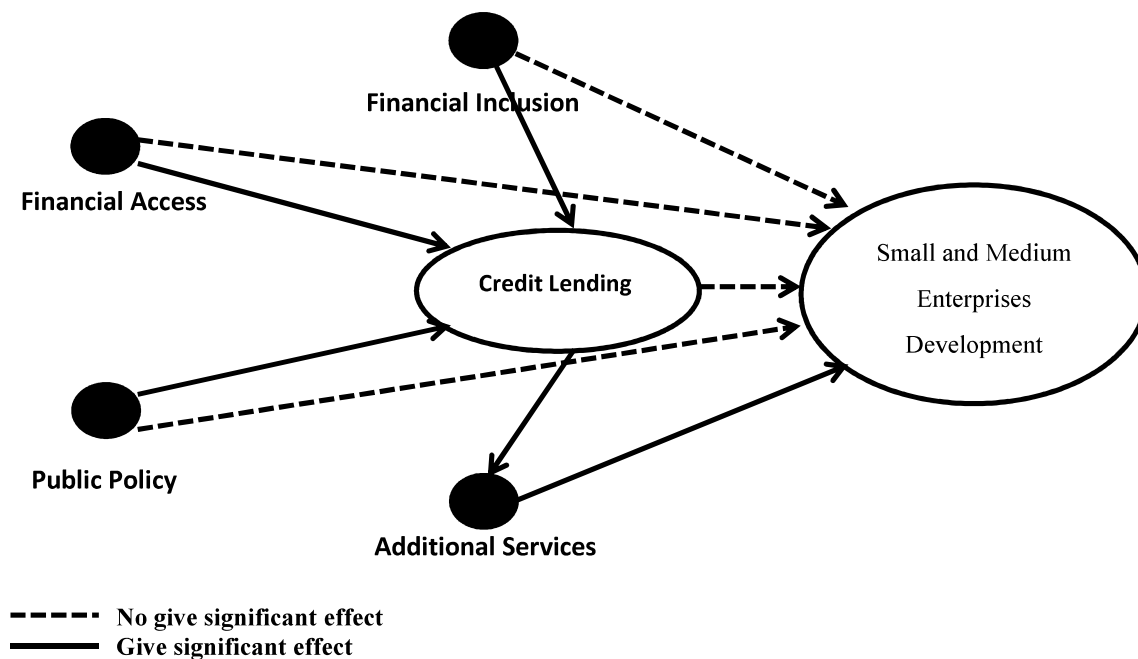
Sources: Author based on processed Primary data, 2016

Based on the results of the author's study, it was reported that the additional services as training on marketing, or training on business management, can affect SMEs development. This is in accordance with the recommendations given by the author and is described in chapter 3 diagram 3.1 page 66 about The Strategy to Development SMEs business through improvement additional services for microcredit customer. Where if in Microfinance industry all Conventional Bank, Rural Bank, and MFI want sustainability in the microfinance industry, they must give attention to the sustainability of the Customer Microfinance for the future, in this case, SMEs' Business. Microfinance industry players such as Conventional Banks, Rural Banks, and MFIs do not only give money/lend money, but also give attention for SMEs microcredit loan customer

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sustainability for the future through the additional services to give SMEs business development.

Additional services to improve SMEs Business can be done with some programs such as[132]:

a. Internal product development banks, low cost and affordable savings products, product inovation.

b. Development of community-based savings products (SMEs clusters, schools, farmer groups, payroll), credit, flexibility administrative requirements of credit application, applying competitive interest rates, credit guarantee insurance

c. Conventional Bank, Rural Bank, and MFIs need to improve service and the attitude of the service personnel, pay attention to Customer Complaint

d. IT development and risk management,

e. Provide training assistance and help the marketing of SMEs, for example for Banks to has a special division to assist online marketing SMEs *(E-Marketing)*

f. Protect customer with micro insurance

Based on the research results, Credit Lending, Financial inclusion, Financial Access, and Public Policy did not affect significantly or does not have direct effect on the development of SMEs' Business. However, Additional Services affect Credit Lending, in this case a Bank Lending credit developments will improve the health of a Micro Bank so it can provide additional services for the development of SME Business.

Based on this research results credit lending development is strongly influenced by the Financial Inclusion, Financial Access, and Public Policy. The results of this study found that the improvement in Financial Inclusion, Financial Access and supported public policy by the government can improve microcredit lending for SME business credit, if microcredit lending increases offset by the improvement of additional services to SMEs businessman to be able develop SMEs Business.

For that we need the support and policies from the Government of Indonesia and the OJK as the Financial Services Authority to be able to make the right policy to improve the Financial Inclusion, the policy provides and enhances financial access to

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[132] See author recommendation on Chapter 3 page 66-70

improve credit lending and policies to support the SMEs business to get additional services from microfinance industry providers.

Recommendation for OJK as the Financial Services Authority can provides policies to improve the Microcredit Service Improvement for SMEs in Indonesia through several programs such as[133]:

a. Creation of a conducive business climate

b. Capital assistance

c. Business protection, make regulation about micro insurance

d. Partnership development

e. Training

f. Establish special institutions

g. Establish association

h. Develop promotions

i. Develop cooperation Equal

j. Develop infrastructures

k. Develop IT-based products together with banking, cooperate with the insurance in the distribution

l. Have the role to provide guaranty institution for microcredit provider and guaranty for SMEs with guaranty fund though microcredit insurance to reduce Moral Hazard

It would also be required the support the Government of Indonesia to improve the microcredit service improvement for SMEs in Indonesia through these programs[134]:

a. Provide incentives to banks providing loans to SMEs, such as collateral arrangement and collectability assessment.

b. Government provides the guarantee to lower the risk of SME loans which is distributed by microfinance industry provider.

c. Support from Local Government

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[133] See author recommendation on Chapter 3 page 67-68

[134] See author recommendation on Chapter 3 page 69

d.   Make appropriate role on business competition, such as special role on interest rate for microcredit

e.   Tax Expenditure special for Export Product SMEs.

In addition to government support, programs are needed to improve the Financial Inclusion and Financial Access to improve SMEs Business Credit Lending. Financial Inclusion is the effort that aims to eliminate barriers of price and non-price, for the public to access financial services. Inclusive finance is a national strategy to promote economic growth through equitable distribution of income, poverty alleviation, as well as the stability of the financial system. In 2014, the level of financial inclusion in Indonesia based on the Finance Index Data World Bank showed that Indonesia's Financial Index is 35.9 percent. Based on Data Central Bank Indonesia in September 2015 show only 11.3 million SMEs that have accounts and access to formal financial institutions. This condition suggests that access of Indonesian people and the SMEs to the financial system are still low if we compared with ASEAN countries. Low access is due to low-income levels, complicated operational procedures in financial institutions, the lack of financial education, high costs administration and demographic conditions in Indonesia which the financial institution locations away from their residence. Therefore, it is important to develop and implement the inclusive financial strategy of encouraging economic activity for the community, especially SMEs who do not the access to the financial services to support equitable distribution of income, poverty alleviation and improvement of micro-credit to SMEs. To increase people's access to financial services through the inclusive financial access program, it needs coordination between the OJK as Financial Services Authority, Central Bank of Indonesia, Ministries, and related agencies for the development, prioritization, and implementation of the program as well as the monitoring and evaluation of programs.

Governments can also provide subsidies to improve people's access to financial services and take some policies to encourage Financial Inclusion. However, often it resulted in high debt levels, especially in rural areas. Debt restructuring would be required to avoid a default and to mitigate risks due to moral hazard. To develop Financial Literacy, The Government of Indonesia must not only focus on the financial

education for migrant employee group and people in remote areas, but also to make and implement financial education for SMEs business, or child and financial education for students.

Training program for SME Entrepreneurs to develop Financial Literacy on micro credit product, the requirement of micro credit, micro insurance to develop micro credit for SME in Indonesia are alo required. National Campaign Program and regulation of multi-licensing for banks to improve the effectiveness of banking operation can also be made. Branchless Banking Guiding Principle to support the implementation of branchless banking can also be added as a program. The Author has presented recommendations of stakeholder integration and Financial Inclusion strategy for SMEs in Indonesia as it has been analysed in chapter 7 figure 7.6 page 150.

Through this research dissertation, the author can provide information on market opportunities and the development of microfinance for SMEs business in Indonesia. It provides Information on the challenges faced to develop microfinance for SMEs' business in Indonesia. Second, it provides information on the effective and appropriate strategy for the development of microfinance for SMEs in Indonesia by analysing the socio-economic and demographic conditions in Indonesia.

Based on this research dissertation, it can be found that SMEs' business can affect the microfinance industry in Indonesia and can make a significant contribution in supporting economic growth in Indonesia. Therefore, it is necessary to give the effort and attention to develop SMEs business in Indonesia and appropriate strategies for the development of microfinance for SMEs' business in Indonesia for the future.

In this dissertation, the author provides some recommendations to development of microfinance through SMEs' potential market as follows:

a. Strategy of Improvement Role Function OJK to Development Microfinance through Training & Social Program for SMEs in Indonesia (Chapter 2).

b. Strategy to Development SMEs Business through Improvement of Additional Services for Microcredit Customer (Chapter 3).

c. Strategy of Improvement Supervision and Monitoring System through Integration of Stakeholders for Sustainable SMEs and Microfinance Institutions in Indonesia (Chapter 4).

d.   Improvement Policy for MFI & Micro banking to support SMEs in Indonesia (Chapter 5).

e.   Strategy for the Development of Micro Credit Lending for SMEs in Indonesia through Financial Inclusion (Chapter 7).

The conclusions from this research, the key success for development microfinance for SMEs business is:

a.   To develop microcredit loan lending for SMEs in Indonesia, the microfinance industry's both Conventional Bank, Rural Bank, and MFI must give financial easy access and provide program to develop Financial Inclusion, which also needs regulation & public policy. Because through microcredit loan lending, the development SMEs business can be supported.

b.   To develop microfinance for SMEs business and for the development of SMEs' business, the microfinance industry's both Conventional Bank, Rural Bank, and MFI must give attention to the sustainability of the customer SMEs business micro finance if it wants sustainable in the microfinance industry for the future, not only to give loan, but also give additional services for the sustainability of SMEs' business for the future.

The author hopes this research dissertation can provide useful information and insights to policymakers of microfinance and other stakeholders so they can make better decisions that will inform the development of microfinance through potential SMEs' business market in Indonesia and throughout the world.

Suggestion for further research, The quantitative data statistical method in this research only are based on questioner for SMEs business in Indonesia. To develop and strengthen empirical study from this research results, subsequent research can do research to another country. Given the economic, demographic, social and business SMEs characteristics is different in each country. So this research can be compared with a research study in another country.

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The Graduate School of East Asian Studies, Faculty of Economic
Yamaguchi University, Japan

QUESTIONNAIRES FOR RESEARCH DISSERTATION

THE STRATEGY TO DEVELOP MICROFINANCE FOR SMEs IN INDONESIA

To: Respondents,

I expect the cooperation to fill in the questionnaire correctly, and the questionnaire is only used as one part of the completion of the data and the writing of my scientific work to complete the Doctoral Program at the Graduate School of East Asian Studies, Faculty of Economic, Yamaguchi University, Japan.

PURPOSE

The purpose questionnaire for SME Businessman are:

1. How The Financial Inclusion/Financial Literacy and Financial Access SMEs Businessman about Microfinance

2. How The Perception and their expectations about Microfinance in Indonesia to support SMEs Business.

INDICATOR

Questionnaire Indicator :
1. Microfinance Financial Access/Financial Inclusions for SMEs
2. Microcredit Lending for SMEs
3. Financial Education
4. Product Knowledge Microfinance in Indonesia
5. Provision of information and networking market
6. Access and Assistance or Training Program
7. Capacity building in information technology
8. Benefit, Problem and Challenges in the use Microfinance products to improve SMEs Business
9. The Level of Satisfaction with the services and Microfinance Product for SMEs
10. Access and Infrastructure, intermediation facilities, convenience facilities   utilizing microfinance product for SMEs
11. Government Policy
12. Requirement of Microfinance Access for SMEs
13. Customer Protection or Insurance
14. Factor affecting for SMEs business → SMEs Businessman Perceptions
15. Their expectations about the appropriate policy and strategy to support SMEs Business in Indonesia

The Graduate School of East Asian Studies, Faculty of Economic
Yamaguchi University, Japan

Number of questionnaires: ☐

	Date	Month	Year
Date:	☐☐	☐☐	☐☐

Respondents source	1. Small and Medium Industry Businessman	☐
	2. Department of Industry and Commerce	☐
	3. Business Associations	☐
	4. Other, please specify:	☐

I. GENERAL INFORMATION RESPONDENT / SME ENTREPRENEURS

- Name of Respondent [ ]

- ID Number [ ]

1. Is the respondent's business has been in operation two years or more?

1. Yes	☐
2. No	☐

2. Does the business you are currently receiving credit from the bank?

1. Yes	☐
2. No	☐

3. Do you need a credit / funding to develop a business you?

1. Yes	☐
2. No	☐

4. a. Company Name ....

   b. Name of Enterpreneure (Director / Head) ....

5. Legal Business:

1. Individual	☐
2. Trade Enterprises / Firm	☐
3. Limited Company	☐
4. Comanditer Vennotschap/Limited Partnership	☐
5. Not Have Legal Entity	☐

6. The duration of Enterprises: .... Year   Date Company Establised ☐☐ ☐☐ ☐☐

7. Business Address: ....

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....	
8. Contact Person :	Phone Number: ....
	E-mail : ....

II. CATEGORIES OF BUSINESS

9.a. Type of Business and Production Capacity			
No.	Total Initial Capital Enterprises (Rp)	Total Equity (Rp)	Total Capital Debt (Rp)
1.			

9.b. Selling Revenues and Profits	
1.	Selling Revenues/ month (Rp):
2.	Total Profit/ month (Rp) :

10. Status Place of business	1. One's own ☐
	2. Rent ☐

11. Economic sector	1. Agriculture, Livestock, Forestry and Fisheries .... ☐
	2. Mining and excavation: .... ☐
	3. Processing industry:.. ☐
	4. Electricity, Gas and Water: .... ☐
	5. Building: .... ☐
	6. Trade, Restaurants and Hotels:..................................... ☐
	7. Transportation and Communications: .... ☐
	8. Finance, Real Estate, and Business Services: .... ☐
	9. Services: .... ☐

12. Total Employee	1. Permanent : .... person (*fixed salary*)
	2. Contract : .... person
	Total : .... person

III. FINANCIAL Acces SMEs Businessman AND Challenge Financial Inclusion (Exclusion Access, Condition Exclusion, Price Exclusion, Self Exclusion, Marketing Exclusion)

Tick (v) in the space provided in accordance with your answer:

Number	Questions	Yes	No
	Self Exclusion		
1	Do you know the Definition of Bank Savings?		
2	Do you have a savings account at the Bank?		
3	Do you understand the meaning of Deposits in Banks?		
4	Do you have deposits account in Bank?		
5	Do you understand the definition of the Automated Teller Machine (ATM)?		
6	Do you have Automated Teller Machine (ATM)?		
7	Do you understand definition of Micro Credit?		
8	Do you have a Micro Credit Loan in Bank?		
9	Do you understand the requirement of Microcredit?		
10	Do you know how much the interest rate Microcredit Loan?		
11	Do you think that saving money can only be done if you have excess money		
12	Do you think that saving money can only be done for the rich only		
	Access Exclusion		
13	Do you easily find the office of the Bank in Your City?		
14	Do you easily find Automated Teller Machine (ATM) of the Bank in Your City?		
15	Do you think the requirement to open a bank account difficult?		
16	Do you think the requirement to apply for microcredit difficult?		
	Price Exclusion		
17	Do you think the interest rate microcredit on bank is higher than in non-bank micro-credit (MFIs)		
18	Do you think the cost of micro credit insurance premiums in Indonesia classified as High		
19	Do you think fee of administration to submit microcredit loan high in Indonesia?		
20	Do you think that microcredit interest rates are very high?		
21	Do you think the monthly administration fee of microcredit high?		
22	Do you think the guarantee required for micro-credit is still too high so difficult to fulfill by SMEs Businessman		
	Marketing Exclusion		
23	Do you ever get an explanation of microcredit / socialization of micro credit (interest rates, requirements etc.)		
24	Whether in town/village you easily to find Bank Office		
25	Is the bank employee at the branch office nearest your		

	location come often to offer micro-credit?		
26	Do you ever get information about banking products such as micro-credit from a bank brochure / flyer or sms directly from Bank		
27	Do you ever get information about banking products such as micro-credit from the exhibition event held by the Bank		
28	Do you ever get information about banking products such as micro-credit from the exhibition event held by the OJK/Otoritas Jasa Keuangan as Financial Services Authority		
29	Do you know the government's policy on microcredit		
30	Do you agree if conducted training on financial management and knowledge of banking products		
Microfinance Interest			
31	Are SMEs businessman willing to recognize and take advantage of banking services and products if a bank is easy to find		
32	What SMEs businessman want to open saving bank account if administrative costs savings low		
33	Are SMEs businessman interested to applying for a microcredit loan if the bank provides loans without guarantee		
34	Are SMEs businessman willing to attend or listen to the socialization of bank services and banking products		
35	If SMEs businessman want to know the bank better if more populist interior		
36	Are SMEs businessman interested to applying for a microcredit loan if interest rate for microcredit low		

IV.   PERCEPTION OF SMEs BUSINESSMAN ABOUT THE ROLE MICRO CREDIT IN IMPROVING BUSINESS SMEs

Tick (v) in the space provided in accordance with your answer. Assessment is based on the following scale:

1). Strongly Agree (SA). – Score 5
2). Agree (A). -- Score 4
3). Hesitate (H) -- Score 3
4). Disagree (DS) -- Score 2
5). Strongly Disagree (SDS) -- Score 1

Variable Credit Lending:

Number	Question	SA	A	H	DS	SDS
1	SME loans are very helpful for business development and easy requirement					
2	I could use funds from loans for the purchase of equipment to make it more complete, thus simplifying and speeding up the production process					
3	The term of the loans classified as long easing repayment					
4	Microcredit interest rate offered is low and can be affordable					
5	It has been very satisfied with microcredits					

Variable Small and Medium Enterprises Development:

Number	Question	SA	A	H	DS	SDS
1	An increase in working capital turnover after getting microcredit					
2	After receiving micro credit an increase in operating profit					
3	My business sales increased because of the additional capital of microcredit					
4	With the microcredit improve my business production					

Variables of Additional Services Banking:

Number	Question	SA	A	H	DS	SDS
1	Training on Business Management focuses on Financial Management very useful for business communities Microcredit					
2	Training on Product Marketing very useful for business communities Microcredit					
3	Training on E-Marketing /					

	Marketing online will increase the production of small and medium enterprises					
4	Desperately need help from the Bank to market the production generated by small and medium enterprises					
5	If banks helped market the production of SMEs, SMEs are willing to split the profits with the banks					
6	Information Technology Systems via SMS banking, ATM, Internet Banking is very helpful effectiveness of SMEs					
7	If the Bank provides services through the IT system would encourage SMEs to apply for the loan if the loan period has been completed					
8	If the Bank provides additional services to provide mentoring / training on business management, e-marketing, etc., as well as assisting in the marketing of SME products, would encourage SMEs to apply for the loan if the loan period has been completed					
9	More SMEs opt for a system of profit sharing rather than interest					
10	SMEs urgently need to protect His efforts Micro Insurance					

Financial Inclusion Variable:

Number	Question	SA	A	H	DS	SDS
1	Socialization is done by the bank regarding information about banking products in Indonesia has been good					
2	Socialization is done by the Government / institutions Microfinance / OJK concerning information about banking products in Indonesia has been good					
3	Exhibitions of products of SMEs by the government to help increase sales of products of SMEs					

	4	Exhibitions of products of SMEs conducted by the Bank to help increase sales of products of SMEs					

Public Policy:

Number	Question	SA	A	H	DS	SDS
5	The government's policy for developing certain Small and Medium Industries through Microcredit has been very good					
6	The role of central government and local government is needed for business development of SMEs					

…………………, ………………… 2016

Respondent:

Name   :   …………………………………………

Sign   :   …………………………………………

APPENDIX-2 : A Brief Profile of the Respondents SMEs Businessman

Citation No	Name (False)	Age	Business Sector	Total income/month (IDR)	Total profit/month (IDR)	Customer Microcredit
1	Jumadi	31	Livestock	110 million	50-60 million	Yes
2	Decki Adi Prasetyo	28	Fishery	59 million	9 million	Yes
3	Wawan Yudianto	29	Fishery	70 million	30 million	Yes
4	Rahmat Budiyanto	29	Trading	100-150 million	10-15 million	Yes
5	Wisnu Tri	26	Wash service	7,5 million	3 million	Yes
6	Muhammad Yasin	26	Services	2-5 million	2 million	No
7	Darmadi	52	Livestock	2-5 million	2 million	No
8	Aji Darmaji	34	Fishery	400 million	150 million	No
9	Fajar Dwi Jatmiko	32	Restaurant	15 million	5 milion	Yes
10	Bagus Ashari	37	Store building	10 million	5 million	No
11	Erik Widiyanto	30	Store	6-7 million	2-3 million	No
12	Hadri Setia	28	Livestock	40 million	30 million	No
13	Erik Setiawan	35	Store	10-15 million	2-3 million	No
14	Tutut Rahmawati	29	Restaurant	12 million	5 million	Yes
15	Fitroh Fitrianingrum	33	Store	7 million	2 million	No
16	Ridho Tri	35	Services	7-10 million	3 million	Yes
17	Rico Samodro	27	Food Factory	50 million	10 million	Yes
18	Luluk Mirta	28	Food Factory	3 million	1,5 million	No
19	Alfan Rahmatul	30	Store	100 million	50 million	No
20	Airlangga Aria Kusuma	29	Store	5 million	1 million	No
21	Erlangga	28	Supplier	80 million	15-16 million	Yes
22	Ryan	28	Barber Shop	10 million	2 million	No
23	Shofiana	32	Store	2 million	1 million	No

24	Januar Mardianto	26	Services	35 million	15 million	Yes
25	Butumari	26	Store	30 milion	15 million	Yes
26	Tri Wahyuni	32	Restaurant	6 million	2 million	Yes
27	Dra. Harmini	51	Store	30 million	5 million	Yes
28	Syahid	29	Livestock	10-15 million	5 million	Yes
29	Jonathan Fajar	20	Store	5 million	2 million	Yes
30	Fedri	30	Store	3 million	1 million	No
31	Riska	30	Store	10 million	3-5 million	No
32	Halimah	51	Store	1,5 million	1 million	No
33	Agus Tamtomo	29	Store	50 million	6 million	Yes
34	Siti Hadijah Ulfa	28	Store	3 million	1 million	No
35	Velle Shoes	32	Store	7 million	2 million	Yes
36	Yanti Ariyanti	38	Store	2 million	1 million	Yes
37	Anton	33	Store	2 million	1 million	No
38	Yaku Ali Purnama	25	Store	10 million	4 million	Yes
39	Ridwan Aziz	33	Restaurant	10-15 million	2-5 million	No
40	Oscar	30	Restaurant	20 million	8 million	Yes
41	Panji Purwo	33	Service	5-7 million	3-3,5 million	No
42	Dios	25	Baby Spa	30 million	15 million	Yes
43	Muammer Ibnu Sina	29	Store	2 million	1 million	Yes
44	Ilham	34	Service	10-20 million	5 million	Yes
45	Gunawan	30	Service	3-5 million	3 million	No
46	Kadri	68	Store	7 million	1,5 million	No
47	Janu	40	Service	50 million	15 million	Yes
48	Iru	27	Service	3 million	1 million	No
49	Pambudi	32	Service	7-10 million	3-5 million	No
50	Samudi	45	Service	50 million	10-15 million	Yes
51	Fajar Ari	36	Service	2-7 million	1 million	No
52	Rochmadi	50	Service	10 million	2 million	No
53	K. Anwar	30	Service	10-15 million	2 million	No
54	Budi Utomo	35	Service	15 million	4 million	No
55	Haryono	45	Automotive Service	10 million	5 million	No
56	Amirul Nisa	35	Fishery	15 million	5-10 million	Yes

57	Fatla Nur Chalif	37	Store	2-3 million	1-2 million	No
58	Sukini	48	Restaurant	3-5 million	1-2 million	No
59	Kardi	68	Restaurant	7-10 million	5-7 million	No
60	Amar Nur Hidayat	26	Service	5 million	3 million	No
61	Imam Qomaruddin	38	Restaurant	2,5 million	1 million	Yes
62	Vicky Andini	31	Food shop	2-3 million	1,2-2,2 million	No
63	Danang	33	Restaurant	4 million	3 million	Yes
64	Burhanuddin	39	Store building	3 million	2 million	No
65	Tugiyem	50	Services	2-3 million	1,5-2,5 million	No
66	Suparno	53	Restaurant	6 million	4 million	No
67	Katikaningtyas	36	Store	3 million	1,2 – 1,5 million	No
68	Muhammad Hasan Syamsuri	23	Agriculture	2million	1 million	No
69	Intan Pawestri	20	Shop	5 million	1 million	No
70	Suparno	44	Restaurant	1,5 million	1 million	No
71	Barno	49	Service	3,5-5 million	2-2,5 million	Yes
72	Rizky Prayogoo Aji	20	Service	2million	1 million	No
73	Lidya Setioawati	35	Service	4-5 million	3-4 million	Yes
74	Heri Sasmoko	57	Restaurant	15 million	10-12 milion	No
75	Eka Ramadhan Sulaikha	29	Restaurant	2-3 million	1 million	No
76	Ari Bimbo	35	Service	4 million	2 million	No
77	Hafid	33	Store	7-10 million	2-3 million	Yes
78	Andreas Sulistyo	28	Store	5-7 million	2-5 million	Yes
79	Sakinah	64	Restaurant	2 million	1 million	No
80	Hafiz Putra Iloni	29	Restaurant	2-5 million	1-2 million	No
81	Arfan Sugali	33	Restaurant	10 million	2-4 million	No
82	Arif Fathullah	31	Restaurant	4-5 million	2,5-3,5 million	No
83	Gurota Ibnu Masud	27	Restaurant	5 million	2 million	No

84	Angga Kurniawan	26	Restaurant	2 million	1 million	No
85	Putro Zhara Wibawa	41	Restaurant	5-6 million	1-2 million	No
86	Ian Robbie Mashuda	30	Barber Shop	2 million	1 million	No
87	Riza Bimo Ardi	32	Service	3-5 million	2 million	No
88	Sabilillah Intan	30	Restaurant	7 million	1 million	Yes
89	Siti Nur Khasanah	46	Restaurant	6 million	4 million	No
90	Jimmy Suhendra	45	Pet Shop	5-10 million	3 million	No
91	Yusuf Rais	60	Restaurant	6 million	3 million	Yes
92	Oryza Armado	31	Store building	25-35 million	5 million	Yes
93	Jokob Irham Prasetyo	42	Book Store	2 million	1 million	Yes
94	Uui Ardika	31	Restaurant	3 million	1 million	Yes
95	Budi Purnomo Adi	36	Drink Store	3 million	1,5 million	No
96	Zakki Manuel	42	Service	6 million	1-3 million	Yes
97	Tono Setiaji	34	Service	2,5 million	2 million	No
98	Ridho Santoso	42	Restaurant	5 million	3 million	Yes
99	Candra Ayu Lestari	30	Restaurant	5 million	2 million	Yes
100	Rendra	45	Drink Store	4 million	2 million	No

APPENDIX-3 : SOME RESULTS OF THE CALCULATIONS

(Please Check the Next Pages)

```
FREQUENCIES
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  /ORDER=  ANALYSIS .
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Frequencies

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N	Valid	100	100	100	100	100	100	100	100	100	100	100	100
	Missing	0	0	0	0	0	0	0	0	0	0	0	0
Mean		,85	,84	,66	,58	,78	,75	,76	,56	,74	,72	,79	,56
Median		1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Mode		1	1	1	1	1	1	1	1	1	1	1	1
Std. Deviation		,359	,368	,476	,496	,416	,435	,429	,499	,441	,451	,409	,499

Frequency Table

se1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	15	15,0	15,0	15,0
	Yes	85	85,0	85,0	100,0
	Total	100	100,0	100,0	

se2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	16	16,0	16,0	16,0
	Yes	84	84,0	84,0	100,0
	Total	100	100,0	100,0	

se3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	34	34,0	34,0	34,0
	Yes	66	66,0	66,0	100,0
	Total	100	100,0	100,0	

se4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	42	42,0	42,0	42,0
	Yes	58	58,0	58,0	100,0
	Total	100	100,0	100,0	

se5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	22	22,0	22,0	22,0
	Yes	78	78,0	78,0	100,0
	Total	100	100,0	100,0	

se6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	25	25,0	25,0	25,0
	Yes	75	75,0	75,0	100,0
	Total	100	100,0	100,0	

se7

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	24	24,0	24,0	24,0
	Yes	76	76,0	76,0	100,0
	Total	100	100,0	100,0	

se8

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	44	44,0	44,0	44,0
	Yes	56	56,0	56,0	100,0
	Total	100	100,0	100,0	

se9

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	26	26,0	26,0	26,0
	Yes	74	74,0	74,0	100,0
	Total	100	100,0	100,0	

se10

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	28	28,0	28,0	28,0
	Yes	72	72,0	72,0	100,0
	Total	100	100,0	100,0	

se11

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	21	21,0	21,0	21,0
	Yes	79	79,0	79,0	100,0
	Total	100	100,0	100,0	

se12

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	44	44,0	44,0	44,0
	Yes	56	56,0	56,0	100,0
	Total	100	100,0	100,0	

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Frequencies

Statistics

		ae1	ae2	ae3	ae4
N	Valid	100	100	100	100
	Missing	0	0	0	0
Mean		,61	,66	,44	,52
Median		1,00	1,00	,00	1,00
Mode		1	1	0	1
Std. Deviation		,490	,476	,499	,502

Frequency Table

ae1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	39	39,0	39,0	39,0
	Yes	61	61,0	61,0	100,0
	Total	100	100,0	100,0	

ae2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	34	34,0	34,0	34,0
	Yes	66	66,0	66,0	100,0
	Total	100	100,0	100,0	

ae3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	56	56,0	56,0	56,0
	Yes	44	44,0	44,0	100,0
	Total	100	100,0	100,0	

ae4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	48	48,0	48,0	48,0
	Yes	52	52,0	52,0	100,0
	Total	100	100,0	100,0	

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Frequencies

Statistics

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N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Mean		,57	,62	,68	,67	,62	,70
Median		1,00	1,00	1,00	1,00	1,00	1,00
Mode		1	1	1	1	1	1
Std. Deviation		,498	,488	,469	,473	,488	,461

Frequency Table

pe1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	43	43,0	43,0	43,0
	Yes	57	57,0	57,0	100,0
	Total	100	100,0	100,0	

pe2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	38	38,0	38,0	38,0
	Yes	62	62,0	62,0	100,0
	Total	100	100,0	100,0	

pe3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	32	32,0	32,0	32,0
	Yes	68	68,0	68,0	100,0
	Total	100	100,0	100,0	

pe4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	33	33,0	33,0	33,0
	Yes	67	67,0	67,0	100,0
	Total	100	100,0	100,0	

pe5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	38	38,0	38,0	38,0
	Yes	62	62,0	62,0	100,0
	Total	100	100,0	100,0	

pe6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	30	30,0	30,0	30,0
	Yes	70	70,0	70,0	100,0
	Total	100	100,0	100,0	

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FREQUENCIES
  VARIABLES=me1 me2 me3 me4 me5 me6 me7 me8
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Frequencies

Statistics

		me1	me2	me3	me4	me5	me6	me7	me8
N	Valid	100	100	100	100	100	100	100	100
	Missing	0	0	0	0	0	0	0	0
Mean		,65	,77	,59	,66	,48	,46	,59	,74
Median		1,00	1,00	1,00	1,00	,00	,00	1,00	1,00
Mode		1	1	1	1	0	0	1	1
Std. Deviation		,479	,423	,494	,476	,502	,501	,494	,441

Frequency Table

me1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	35	35,0	35,0	35,0
	Yes	65	65,0	65,0	100,0
	Total	100	100,0	100,0	

me2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	23	23,0	23,0	23,0
	Yes	77	77,0	77,0	100,0
	Total	100	100,0	100,0	

me3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	41	41,0	41,0	41,0
	Yes	59	59,0	59,0	100,0
	Total	100	100,0	100,0	

me4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	34	34,0	34,0	34,0
	Yes	66	66,0	66,0	100,0
	Total	100	100,0	100,0	

me5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	52	52,0	52,0	52,0
	Yes	48	48,0	48,0	100,0
	Total	100	100,0	100,0	

me6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	54	54,0	54,0	54,0
	Yes	46	46,0	46,0	100,0
	Total	100	100,0	100,0	

me7

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	41	41,0	41,0	41,0
	Yes	59	59,0	59,0	100,0
	Total	100	100,0	100,0	

me8

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	26	26,0	26,0	26,0
	Yes	74	74,0	74,0	100,0
	Total	100	100,0	100,0	

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Frequencies

Statistics

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N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Mean		,73	,77	,77	,74	,71	,72
Median		1,00	1,00	1,00	1,00	1,00	1,00
Mode		1	1	1	1	1	1
Std. Deviation		,446	,423	,423	,441	,456	,451

Frequency Table

mi1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	27	27,0	27,0	27,0
	Yes	73	73,0	73,0	100,0
	Total	100	100,0	100,0	

mi2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	23	23,0	23,0	23,0
	Yes	77	77,0	77,0	100,0
	Total	100	100,0	100,0	

mi3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	23	23,0	23,0	23,0
	Yes	77	77,0	77,0	100,0
	Total	100	100,0	100,0	

mi4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	26	26,0	26,0	26,0
	Yes	74	74,0	74,0	100,0
	Total	100	100,0	100,0	

mi5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	29	29,0	29,0	29,0
	Yes	71	71,0	71,0	100,0
	Total	100	100,0	100,0	

mi6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	28	28,0	28,0	28,0
	Yes	72	72,0	72,0	100,0
	Total	100	100,0	100,0	

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  /ORDER=  ANALYSIS .
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Frequencies

Statistics

		X1	X2	X3	X4	X5
N	Valid	100	100	100	100	100
	Missing	0	0	0	0	0
Mean		3,73	3,64	3,34	3,24	3,04
Median		4,00	4,00	3,00	3,00	3,00
Mode		4	4	3	3	3
Std. Deviation		,790	,772	,728	,830	,816

Frequency Table

X1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	7,0	7,0	7,0
	Hesitate	27	27,0	27,0	34,0
	Agree	52	52,0	52,0	86,0
	Strongly Agree	14	14,0	14,0	100,0
	Total	100	100,0	100,0	

X2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	9,0	9,0	9,0
	Hesitate	27	27,0	27,0	36,0
	Agree	55	55,0	55,0	91,0
	Strongly Agree	9	9,0	9,0	100,0
	Total	100	100,0	100,0	

X3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	11	11,0	11,0	11,0
	Hesitate	48	48,0	48,0	59,0
	Agree	37	37,0	37,0	96,0
	Strongly Agree	4	4,0	4,0	100,0
	Total	100	100,0	100,0	

X4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	20	20,0	20,0	20,0
	Hesitate	41	41,0	41,0	61,0
	Agree	34	34,0	34,0	95,0
	Strongly Agree	5	5,0	5,0	100,0
	Total	100	100,0	100,0	

X5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	2,0	2,0	2,0
	Disagree	22	22,0	22,0	24,0
	Hesitate	49	49,0	49,0	73,0
	Agree	24	24,0	24,0	97,0
	Strongly Agree	3	3,0	3,0	100,0
	Total	100	100,0	100,0	

```
FREQUENCIES
  VARIABLES=Y1 Y2 Y3 Y4
  /STATISTICS=STDDEV MEAN MEDIAN MODE
  /ORDER=  ANALYSIS .
```

Frequencies

Statistics

		Y1	Y2	Y3	Y4
N	Valid	100	100	100	100
	Missing	0	0	0	0
Mean		3,49	3,34	3,39	3,40
Median		4,00	3,00	3,00	3,00
Mode		4	3	3	4
Std. Deviation		,732	,699	,723	,791

Frequency Table

Y1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	9,0	9,0	9,0
	Hesitate	38	38,0	38,0	47,0
	Agree	48	48,0	48,0	95,0
	Strongly Agree	5	5,0	5,0	100,0
	Total	100	100,0	100,0	

Y2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	10	10,0	10,0	10,0
	Hesitate	49	49,0	49,0	59,0
	Agree	38	38,0	38,0	97,0
	Strongly Agree	3	3,0	3,0	100,0
	Total	100	100,0	100,0	

Y3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	10	10,0	10,0	10,0
	Hesitate	45	45,0	45,0	55,0
	Agree	41	41,0	41,0	96,0
	Strongly Agree	4	4,0	4,0	100,0
	Total	100	100,0	100,0	

Y4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	13,0	13,0	13,0
	Hesitate	40	40,0	40,0	53,0
	Agree	41	41,0	41,0	94,0
	Strongly Agree	6	6,0	6,0	100,0
	Total	100	100,0	100,0	

```
FREQUENCIES
  VARIABLES=Z1 Z2 Z3 Z4 Z5 Z6 Z7 Z8 Z9 Z10
  /STATISTICS=STDDEV MEAN MEDIAN MODE
  /ORDER=  ANALYSIS .
```

Frequencies

Statistics

		Z1	Z2	Z3	Z4	Z5	Z6	Z7	Z8	Z9	Z10
N	Valid	100	100	100	100	100	100	100	100	100	100
	Missing	0	0	0	0	0	0	0	0	0	0
Mean		3,65	3,65	3,65	3,42	3,31	3,69	3,33	3,42	3,53	3,56
Median		4,00	4,00	4,00	3,00	3,00	4,00	3,00	3,00	4,00	3,50
Mode		4	4	4	3	3	4	3	3	4	3
Std. Deviation		,642	,626	,609	,622	,598	,706	,667	,684	,658	,868

Frequency Table

Z1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	3,0	3,0	3,0
	Hesitate	35	35,0	35,0	38,0
	Agree	56	56,0	56,0	94,0
	Strongly Agree	6	6,0	6,0	100,0
	Total	100	100,0	100,0	

Z2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	3,0	3,0	3,0
	Hesitate	34	34,0	34,0	37,0
	Agree	58	58,0	58,0	95,0
	Strongly Agree	5	5,0	5,0	100,0
	Total	100	100,0	100,0	

Z3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	1,0	1,0	1,0
	Hesitate	39	39,0	39,0	40,0
	Agree	54	54,0	54,0	94,0
	Strongly Agree	6	6,0	6,0	100,0
	Total	100	100,0	100,0	

Z4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	5,0	5,0	5,0
	Hesitate	50	50,0	50,0	55,0
	Agree	43	43,0	43,0	98,0
	Strongly Agree	2	2,0	2,0	100,0
	Total	100	100,0	100,0	

Z5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	6,0	6,0	6,0
	Hesitate	58	58,0	58,0	64,0
	Agree	35	35,0	35,0	99,0
	Strongly Agree	1	1,0	1,0	100,0
	Total	100	100,0	100,0	

Z6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	3,0	3,0	3,0
	Hesitate	36	36,0	36,0	39,0
	Agree	50	50,0	50,0	89,0
	Strongly Agree	11	11,0	11,0	100,0
	Total	100	100,0	100,0	

Z7

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	8,0	8,0	8,0
	Hesitate	54	54,0	54,0	62,0
	Agree	35	35,0	35,0	97,0
	Strongly Agree	3	3,0	3,0	100,0
	Total	100	100,0	100,0	

Z8

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	7,0	7,0	7,0
	Hesitate	48	48,0	48,0	55,0
	Agree	41	41,0	41,0	96,0
	Strongly Agree	4	4,0	4,0	100,0
	Total	100	100,0	100,0	

Z9

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	6,0	6,0	6,0
	Hesitate	38	38,0	38,0	44,0
	Agree	53	53,0	53,0	97,0
	Strongly Agree	3	3,0	3,0	100,0
	Total	100	100,0	100,0	

Z10

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1,0	1,0	1,0
	Disagree	7	7,0	7,0	8,0
	Hesitate	42	42,0	42,0	50,0
	Agree	35	35,0	35,0	85,0
	Strongly Agree	15	15,0	15,0	100,0
	Total	100	100,0	100,0	

```
FREQUENCIES
  VARIABLES=V1 V2 V3 V4
  /STATISTICS=STDDEV MEAN MEDIAN MODE
  /ORDER=  ANALYSIS .
```

Frequencies

Statistics

		V1	V2	V3	V4
N	Valid	100	100	100	100
	Missing	0	0	0	0
Mean		3,49	3,38	3,43	3,34
Median		4,00	3,00	3,00	3,00
Mode		4	4	3	3
Std. Deviation		,674	,736	,685	,728

Frequency Table

V1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	7,0	7,0	7,0
	Hesitate	40	40,0	40,0	47,0
	Agree	50	50,0	50,0	97,0
	Strongly Agree	3	3,0	3,0	100,0
	Total	100	100,0	100,0	

V2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	12	12,0	12,0	12,0
	Hesitate	41	41,0	41,0	53,0
	Agree	44	44,0	44,0	97,0
	Strongly Agree	3	3,0	3,0	100,0
	Total	100	100,0	100,0	

V3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	7,0	7,0	7,0
	Hesitate	47	47,0	47,0	54,0
	Agree	42	42,0	42,0	96,0
	Strongly Agree	4	4,0	4,0	100,0
	Total	100	100,0	100,0	

V4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	11	11,0	11,0	11,0
	Hesitate	48	48,0	48,0	59,0
	Agree	37	37,0	37,0	96,0
	Strongly Agree	4	4,0	4,0	100,0
	Total	100	100,0	100,0	

```
FREQUENCIES
  VARIABLES=PP1 PP2
  /STATISTICS=STDDEV MEAN MEDIAN MODE
  /ORDER=  ANALYSIS .
```

Frequencies

Statistics

		PP1	PP2
N	Valid	100	100
	Missing	0	0
Mean		3,38	3,47
Median		3,00	3,50
Mode		3	4
Std. Deviation		,678	,797

Frequency Table

PP1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	8,0	8,0	8,0
	Hesitate	49	49,0	49,0	57,0
	Agree	40	40,0	40,0	97,0
	Strongly Agree	3	3,0	3,0	100,0
	Total	100	100,0	100,0	

PP2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	11	11,0	11,0	11,0
	Hesitate	39	39,0	39,0	50,0
	Agree	42	42,0	42,0	92,0
	Strongly Agree	8	8,0	8,0	100,0
	Total	100	100,0	100,0	

```
FACTOR
  /VARIABLES se1 se2 se3 se4 se5 se6 se7 se8 se9 se10 se11 se12
ae1 ae2 ae3
  ae4 pe1 pe2 pe3 pe4 pe5 pe6 me1 me2 me3 me4 me5 me6 me7 me8 mi1
mi2 mi3
```

```
  mi4 mi5 mi6  /MISSING LISTWISE /ANALYSIS se1 se2 se3 se4 se5 se6
se7 se8
  se9 se10 se11 se12 ae1 ae2 ae3 ae4 pe1 pe2 pe3 pe4 pe5 pe6 me1
me2 me3 me4
  me5 me6 me7 me8 mi1 mi2 mi3 mi4 mi5 mi6
  /PRINT INITIAL KMO EXTRACTION ROTATION
  /FORMAT BLANK(.50)
  /CRITERIA FACTORS(5) ITERATE(25)
  /EXTRACTION PC
  /CRITERIA ITERATE(25)
  /ROTATION VARIMAX
  /METHOD=CORRELATION .
```

Factor Analysis

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,760
Bartlett's Test of Sphericity	Approx. Chi-Square	2178,846
	df	630
	Sig.	,000

Communalities

	Initial	Extraction
se1	1,000	,402
se2	1,000	,509
se3	1,000	,573
se4	1,000	,485
se5	1,000	,814
se6	1,000	,571
se7	1,000	,712
se8	1,000	,646
se9	1,000	,771
se10	1,000	,707
se11	1,000	,643
se12	1,000	,508
ae1	1,000	,713
ae2	1,000	,625
ae3	1,000	,542
ae4	1,000	,468
pe1	1,000	,612
pe2	1,000	,452
pe3	1,000	,529
pe4	1,000	,613
pe5	1,000	,535
pe6	1,000	,567
me1	1,000	,495
me2	1,000	,394
me3	1,000	,760
me4	1,000	,462
me5	1,000	,424
me6	1,000	,493
me7	1,000	,710
me8	1,000	,386
mi1	1,000	,547
mi2	1,000	,604
mi3	1,000	,630
mi4	1,000	,475
mi5	1,000	,446
mi6	1,000	,480

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10,017	27,825	27,825	10,017	27,825	27,825	6,241	17,335	17,335
2	3,715	10,320	38,145	3,715	10,320	38,145	4,127	11,464	28,799
3	3,047	8,465	46,610	3,047	8,465	46,610	3,944	10,954	39,753
4	1,875	5,210	51,820	1,875	5,210	51,820	3,370	9,362	49,115
5	1,646	4,572	56,392	1,646	4,572	56,392	2,620	7,277	56,392
6	1,331	3,697	60,089						
7	1,260	3,500	63,588						
8	1,140	3,165	66,754						
9	1,093	3,037	69,791						
10	,973	2,702	72,493						
11	,916	2,545	75,038						
12	,858	2,383	77,422						
13	,785	2,182	79,603						
14	,743	2,063	81,666						
15	,716	1,988	83,654						
16	,615	1,709	85,363						
17	,543	1,510	86,873						
18	,497	1,381	88,254						
19	,466	1,294	89,548						
20	,414	1,151	90,699						
21	,396	1,099	91,798						
22	,381	1,058	92,856						
23	,311	,864	93,720						
24	,309	,858	94,578						
25	,271	,752	95,329						
26	,260	,721	96,050						
27	,249	,692	96,743						
28	,217	,603	97,346						
29	,190	,528	97,874						
30	,162	,450	98,324						
31	,150	,416	98,741						
32	,116	,322	99,062						
33	,104	,288	99,350						
34	,090	,249	99,599						
35	,083	,230	99,829						
36	,062	,171	100,000						

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component				
	1	2	3	4	5
se1	,573				
se2	,637				
se3	,555				
se4					
se5	,716				
se6	,587				
se7	,680				
se8	,678				
se9	,738				
se10	,728				
se11	,604				
se12	,579				
ae1					-,598
ae2	,502				
ae3					
ae4					
pe1				-,589	
pe2					
pe3	,555				
pe4	,625				
pe5	,599				
pe6					
me1					
me2					
me3			,620		
me4					
me5					
me6					
me7			,654		
me8					
mi1	,550				
mi2		,546			
mi3	,532				
mi4					
mi5					
mi6		,610			

Extraction Method: Principal Component Analysis.

a. 5 components extracted.

Rotated Component Matrix^a

	Component				
	1	2	3	4	5
se1	,509				
se2	,568				
se3	,737				
se4	,631				
se5	,863				
se6	,615				
se7	,816				
se8	,550				
se9	,807				
se10	,749				
se11	,765				
se12	,582				
ae1					,783
ae2					,662
ae3					,603
ae4					,549
pe1				,742	
pe2				,551	
pe3				,581	
pe4				,538	
pe5				,521	
pe6				,685	
me1		,528			
me2		,559			
me3		,860			
me4		,609			
me5		,603			
me6		,519			
me7		,803			
me8		,525			
mi1			,657		
mi2			,769		
mi3			,673		
mi4			,669		
mi5			,545		
mi6			,615		

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
  a. Rotation converged in 7 iterations.

Component Transformation Matrix

Component	1	2	3	4	5
1	,658	,421	,361	,405	,310
2	-,518	-,255	,729	,243	,277
3	-,546	,771	-,223	,227	,075
4	,024	,373	,403	-,833	,061
5	,023	,156	,356	,176	-,904

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

```
RELIABILITY
  /VARIABLES=se1 se2 se3 se4 se5 se6 se7 se8 se9 se10 se11 se12
  /SCALE('ALL VARIABLES')  ALL/MODEL=ALPHA
  /STATISTICS=DESCRIPTIVE SCALE .
```

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	100	100,0
	Excluded[a]	0	,0
	Total	100	100,0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
,916	12

Item Statistics

	Mean	Std. Deviation	N
se1	,85	,359	100
se2	,84	,368	100
se3	,66	,476	100
se4	,58	,496	100
se5	,78	,416	100
se6	,75	,435	100
se7	,76	,429	100
se8	,56	,499	100
se9	,74	,441	100
se10	,72	,451	100
se11	,79	,409	100
se12	,56	,499	100

Scale Statistics

Mean	Variance	Std. Deviation	N of Items
8,59	14,669	3,830	12

```
RELIABILITY
  /VARIABLES=ae1 ae2 ae3 ae4
  /SCALE('ALL VARIABLES')  ALL/MODEL=ALPHA
  /STATISTICS=DESCRIPTIVE SCALE .
```

Reliability
Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	100	100,0
	Excluded[a]	0	,0
	Total	100	100,0

a. Listwise deletion based on all
   variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
,752	4

Item Statistics

	Mean	Std. Deviation	N
ae1	,61	,490	100
ae2	,66	,476	100
ae3	,44	,499	100
ae4	,52	,502	100

Scale Statistics

Mean	Variance	Std. Deviation	N of Items
2,23	2,219	1,490	4

```
RELIABILITY
  /VARIABLES=pe1 pe2 pe3 pe4 pe5 pe6
  /SCALE('ALL VARIABLES')  ALL/MODEL=ALPHA
  /STATISTICS=DESCRIPTIVE SCALE .
```

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	100	100,0
	Excluded[a]	0	,0
	Total	100	100,0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
,816	6

Item Statistics

	Mean	Std. Deviation	N
pe1	,57	,498	100
pe2	,62	,488	100
pe3	,68	,469	100
pe4	,67	,473	100
pe5	,62	,488	100
pe6	,70	,461	100

Scale Statistics

Mean	Variance	Std. Deviation	N of Items
3,86	4,303	2,074	6

```
RELIABILITY
  /VARIABLES=me1 me2 me3 me4 me5 me6 me7 me8
  /SCALE('ALL VARIABLES')  ALL/MODEL=ALPHA
  /STATISTICS=DESCRIPTIVE SCALE .
```

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	100	100,0
	Excluded[a]	0	,0
	Total	100	100,0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
,827	8

Item Statistics

	Mean	Std. Deviation	N
me1	,65	,479	100
me2	,77	,423	100
me3	,59	,494	100
me4	,66	,476	100
me5	,48	,502	100
me6	,46	,501	100
me7	,59	,494	100
me8	,74	,441	100

Scale Statistics

Mean	Variance	Std. Deviation	N of Items
4,94	6,582	2,566	8

```
RELIABILITY
  /VARIABLES=mi1 mi2 mi3 mi4 mi5 mi6
  /SCALE('ALL VARIABLES')  ALL/MODEL=ALPHA
  /STATISTICS=DESCRIPTIVE SCALE .
```

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	100	100,0
	Excluded^a	0	,0
	Total	100	100,0

a. Listwise deletion based on all
   variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
,815	6

Item Statistics

	Mean	Std. Deviation	N
mi1	,73	,446	100
mi2	,77	,423	100
mi3	,77	,423	100
mi4	,74	,441	100
mi5	,71	,456	100
mi6	,72	,451	100

Scale Statistics

Mean	Variance	Std. Deviation	N of Items
4,44	3,623	1,903	6

```
NPAR TESTS
  /K-S(NORMAL)= SE AE PE ME MI
  /MISSING ANALYSIS.
```

NPar Tests

One-Sample Kolmogorov-Smirnov Test

		Self Exclusion	Acces Exclution	Price Exclution	Marketing Exclution	Microfinance Interest
N		100	100	100	100	100
Normal Parameters [a,b]	Mean	8,5900	2,2300	3,8600	4,9400	4,4400
	Std. Deviation	3,82996	1,48973	2,07447	2,56558	1,90332
Most Extreme Differences	Absolute	,214	,183	,229	,199	,274
	Positive	,187	,145	,151	,116	,206
	Negative	-,214	-,183	-,229	-,199	-,274
Kolmogorov-Smirnov Z		2,136	1,826	2,287	1,990	2,738
Asymp. Sig. (2-tailed)		,000	,003	,000	,001	,000

a. Test distribution is Normal.

b. Calculated from data.

```
NONPAR CORR
  /VARIABLES=SE AE PE ME MI
  /PRINT=SPEARMAN TWOTAIL NOSIG
  /MISSING=PAIRWISE .
```

Nonparametric Correlations

Correlations

			Self Exclusion	Acces Exclution	Price Exclution	Marketing Exclution	Microfinance Interest
Spearman's rho	Self Exclusion	Correlation Coefficient	1,000	,270**	,366**	,418**	,259**
		Sig. (2-tailed)	.	,007	,000	,000	,009
		N	100	100	100	100	100
	Acces Exclution	Correlation Coefficient	,270**	1,000	,420**	,400**	,417**
		Sig. (2-tailed)	,007	.	,000	,000	,000
		N	100	100	100	100	100
	Price Exclution	Correlation Coefficient	,366**	,420**	1,000	,374**	,470**
		Sig. (2-tailed)	,000	,000	.	,000	,000
		N	100	100	100	100	100
	Marketing Exclution	Correlation Coefficient	,418**	,400**	,374**	1,000	,277**
		Sig. (2-tailed)	,000	,000	,000	.	,005
		N	100	100	100	100	100
	Microfinance Interest	Correlation Coefficient	,259**	,417**	,470**	,277**	1,000
		Sig. (2-tailed)	,009	,000	,000	,005	.
		N	100	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

Average Variance Extracted (AVE)

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O...	P Values
Additional Services Banking	0.582	0.588	0.046	12.741	0.000
Credit Lending	0.624	0.629	0.040	15.640	0.000
Financial Acces	0.507	0.516	0.032	15.872	0.000
Financial Inclusion	0.752	0.755	0.041	18.317	0.000
Public Policy	0.894	0.894	0.026	34.052	0.000
Small and Medium Enterprises Development	0.717	0.720	0.043	16.774	0.000

Composite Reliability

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O...	P Values
Additional Services Banking	0.933	0.933	0.013	73.807	0.000
Credit Lending	0.892	0.893	0.017	53.438	0.000
Financial Acces	0.837	0.840	0.018	47.694	0.000
Financial Inclusion	0.924	0.924	0.016	58.129	0.000
Public Policy	0.944	0.944	0.015	64.016	0.000
Small and Medium Enterprises Development	0.910	0.911	0.017	52.744	0.000