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Lending Model: Micro Credit Risk By Joint Liability

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Abstract
This study aims to test risk credit of micro business group which uses joint liability model. This study used a descriptive method which can be collected by doing a five-step survey. Data was analyzed quantitatively which focused on calculating the risk of gaining an optimal model. From the obtained data, the lowest risk is gained from convection otherwise the biggest is gained from animal farm. In term of business support, Batik needs the highest support otherwise food and beverage need the lowest support. Then, in term of loan facility, Batik needs on the highest level of loan otherwise food and beverage needs on the lowest one. Moreover, Batik or convection gains 34,04% in term of income's improvement, on the other hand, food and convection only improves on 9,64%.
Keywords: Risk, Lending Model, joint liability

1. Introduction

Small and micro enterprise hold almost the majority of business section in Indonesia. Survey shows that there are almost 50 million small and medium enterprises in Indonesia. It takes 99% among the rest of business in Indonesia. State Minister for Cooperatives Small and Medium Enterprises of Indonesia in 2013 stated that there were 47.702.310 or around 95% Small Medium Enterprises (in Indonesia we called as UKM) in Indonesia. Then, there were more than 2.000.000 of small enterprises and around 120.000 for medium enterprises. Otherwise, there were only 4.527 units or only 0,01% which can be classified as large enterprises. Factually, small and micro enterprises needs more support to develop its business such as managerial training, marketing as well as credit. Moreover, it may be face a big problem which should be immediately solved in term of management, marketing and financial access. Empirical study shows on how small and micro enterprises get its own additional capital support (Berger dan Udell, 1998; Gregory et al, 2005). This study focused on lending model risk which used joint liability for micro enterprise. It is believed as the one of qualitative and non-qualitative model which is very important for micro business.

Lending model is clearly defined as "a short term lending for fulfilling business capital" (Ferris, 1981: 243). On the other words, debtor will settle its lending in around less than 2 years. Specifically, we analyzed business capital credit in two different perspectives. First, we analyzed capital risk which can be characterized as qualitative model by focusing on several indicators such as character, business managerial skill, assurance, economical condition and capital aspect. Second, we analyzed on quantitative aspect which considered the ability to repay loan during the due date. As the regular component of market transaction and short term lending, business capital credit plays a crucial role in term of business development. Empirical data shows that more than 80% of business-to-business transaction in England is conducted by using credit transaction (Tirole, 2006). Comparing to a large level of business, micro business is highly depended to business capital credit because micro business has a problem relates to capital access (Berger dan Udell, 1998). Elliehausen dan Wolken (1993) argued that business capital credit represents around 35% of the total number of asset in micro business. It is used to develop and improve the company value and profitability (Amril, 1987; García-Teruel dan Martínez-Solano, 2014). However, micro business owners have not understood the relationship between business capital and liquidity; it is because they lack of knowledge in understanding the relationship of company development which can directly correlate to liquidity development.

Several theories mention many factors which can determine business capital credit (Ferri, 1981; Ng et al, 1999), as well as build a theoretical model which can evaluate business capital credit. For instance, transaction theory shows that business capital can decrease the amount of exchange fee by dividing between goods exchange and money exchange (Ferri, 1981). On the other hand, those above theories do not have enough empirical evidence which is able to prove and clearly explain the theory which focuses on the understanding of the relationship between business capital credit and company liquidity. In this study, authors wanted to match this gap. Authors used set data which had been gained from 4 kinds of business group from around Malang during 2015 – 2016 periods to examine the relationship between business capital credit and profitability based on both theoretical and empirical framework. Based on the background above, the research question is "How does credit risk influence business capital credit policy?".

Credit joint liability model can be best described as shared responsibility between a creditor and debtor to a debt which has been made and agreed. State Minister for Cooperatives Small and Medium Enterprises of Indonesia defines joint liability as a shared responsibility among cooperatives (koperasi) members in a cooperative group to bear the brunt, based on openness and trust (KNKUKM, 2007). Then, joint reliability also defines as bearing, guarantying, expressing willingness to fulfill the obligations of the members, either temporary or permanently if one of the members in a certain group does not act or behave as what have been negotiated before (Soemantri, 2003). Joint liability is kind of social guarantee which contains worth social value such as togetherness, mutual and trust value among cooperative members to lighten the burden together (Syaiful, 2008). Riana Panggabean said that the main point of Joint Liability model are togetherness, mutual and trust value as well as understanding among cooperative members (Panggabean, 2007). Moreover, Sri Edi-Swasono argued that lending model which based on joint liability which has been developed by Financial Institutions is a real form of principal "helping our self by togetherness" (Roesdiono, 1998). For addition, joint liability is not only about security mechanism (especially for creditor perspective), but also about pushing the debtors to be cautious when receive lending because they have been supervised by many people automatically as they receive the lending. Moreover, joint liability is the kind of magnanimity in term of implementing national agreement which will be able to develop togetherness and sense of belonging which can later be used as economic development planning. Based on the joint liability concepts which have been clearly explained above, we can justify that togetherness and sense of belonging beliefs can be classified as neither apathy nor pacifism, otherwise it can be classified as dynamism. Start from this perspective, a dynamic independence will be realized. Indonesian constitution 1945 on chapter 33 says that joint liability is a concrete form of economic systems based on togetherness and sense of belonging, independence, social solidarity, and society dynamism. Joint liability credit model which is conducted is a credit that given to micro enterprise which should be gradually repaid together.

By giving a group lending there will be a good competition between entrepreneurs among the entrepreneur's group. They can take care and help of each other, and then can be motivated to be better. Through entrepreneurship, the small capital debtors will be able to develop their skill, discipline and hard working on how they run the company. It also will be the real example for their children that will have a better future as their parents have a better level of life.

2. Research Methods

This is a descriptive research which uses a survey. Thus, this research framework is divided to be 5 steps as follows: (1) Introduction; (2) Collecting Data; (3) Collecting Information; (4) Measuring quantitative and qualitative analysis; (5) Result analysis and testing model. During the research, it was started by doing a study which was used to discover a draft model which based on finding's characteristics, and then it was developed through trials. Trials model which had been tested was called as "Empirical Model" which later should be implemented to discover the weakness and the opportunity as well as measuring the indicator achievement and comparing with the previous findings. The result of empiric model testing is called as final model of lending model in joint liability for micro enterprise based on risk approach.

The population of this study was micro enterprise of convection group, food and beverage, animal farm, and Batik which have received a micro capital credit with joint liability model in around Malang and Malang regency. Sample was determined by using stratified random sampling.

This joint liability model with risk approach for micro enterprise will be best conducted when: (1) Repayment capacity and net profit are increased, and (2) Credit level is lower than previous period.

3. Results And Discussion

By analyzing credit risk from four groups of micro enterprise in food and beverage, animal farm, Batik and convection, the author found:

Table 1: Credit Risk

No	Enterprise Group	Skor	Admint	Character			Productive Effort					Asset		Finance (000)
				ED	Man	BE	POB	BL	BG	BR	OB	FA	CA	WC
1	Food and Beverage	345	15	30	40	30	20	40	30	30	20	50	20	275.235
2	Animal Farm	250	10	20	30	30	40	40	20	10	20	10	20	280.875
3	Batik	350	20	40	40	30	40	40	20	30	20	50	20	600.000
4	Convection	360	30	40	50	40	40	30	20	30	30	40	30	450.000

Source: processed data

According to the table above, credit risk for convection enterprises are around 360, Batik 350, food and beverage 250. It shows that convection has a larger score rather than the rest of enterprises. It also shows that it has the smaller risk rather than other enterprises. It happens because convection enterprises have a higher level in term of managerial system rather than other enterprises. Batik has 350 score which may give a clear explanation that it has the lower level of risk. It means that Batik enterprises can be classified to the enterprise which suitable for receiving capital credit from Financial Institutions. The lower level of risk of Batik enterprises are totally supported by the educational background of the employees which have 40 scores and mostly graduated from senior high school as well as owned fixed assets which shows 50. Food and beverage enterprises have 345 in term of risk which can be categorized in fair level and which may be suitable for receiving capital credit from Financial Institutions. The problems which may arise from Food and beverage enterprises are lack of administrative requirements which have been decided by bank and on the other hand, most of them do not have their own selling places. Almost most of them rent a place for their enterprises. Animal Farm enterprises have the higher score in term of capital risk rather than other enterprises which shows 250. It happens because they lack of administrative requirements as well as the relationship of its enterprise which can be categorized as a free enterprise. It affects to the product selling price which is totally determined by the middleman. Then, 10 scores indicate that people involve in this enterprises have a lower level of educational background which may affect to the development of the enterprises. This may cause bank gives them additional requirements before giving capital credit.

Table 2: Credit Realization

No	Enterprise Group	Capital Needs (000)	Owned Capital Needs (000)	Lack of Capital Needs / Credit Realization (000)
1	Food and Beverage	Rp. 335.235	Rp. 275.235	Rp. 60.000
2	Animal Farm	Rp. 355.875	Rp. 280.875	Rp. 75.000
3	Batik	Rp. 750.000	Rp. 600.000	Rp. 150.000
4	Convection	Rp. 550.000	Rp. 450.000	Rp. 100. 000

Sumber: processed data

The table 2 above shows a quantitative aspect which has been drawn by financial aspect of micro enterprise. It can be a consideration to Bank for giving a capital credit. Batik enterprises group has Rp. 600.000.000; for fulfilling its' capital needs it should have Rp. 750.000.000, thus Bank should lend Rp. 150.000.000. Convection enterprises group has Rp. 450.000.000, and totally it needs Rp.550.000.000. In this condition, bank should lend Rp. 100.000.000. Animal Farm enterprises group has Rp. 280.875.000, while the total needs which should be filled up is Rp. 355.875.000, thus Bank should lend Rp. 75.000.000. Food and beverage enterprises group has Rp. 275.235.000, while it totally needs Rp. 335. 235.000. Thus, Bank should lend Rp. 60.000.000.

By using lending model, we can easily know the information relates to the risk from each enterprise. It can help financial institution in order to determine the eligibility for giving loan to enterprises. The result shows that the increasing number for four enterprises is 17,85%. In which, the highest level of food and beverage sector increases at 34,04 % and then the lowest one increases at minus 9,64 %. The condition shows that by giving loan to enterprise, it will help to develop its profit at 20% which will affect to the increasing number of liquidity in micro enterprises. On the other hand, Convection sector has decreased in term of assets.

Profit which generates after completing tax decrease at 16,01%. Convection sector is getting the highest level of profit at 20,86%, and the lowest one is animal farm at 10%. Net profit has a central role in term of paying capability for every micro enterprise. It is because profit is one of indicator which is able to determine repayment capacity of debtor. The high level of profit which is achieved by convection enterprises describes the efficiency of profitability. It means the product selling in convection enterprises is higher than goods and operating cost. On the other hand, animal farm has a lowest level in term of profit improvement. The condition indicates that animal farm has a highest level in production and operating cost which is able to affect in profit improvement. It may be happened because animal farm is still depending on its suppliers.

Generally, the amount of lending facility which is gotten by enterprises increases at 16.25%. The highest level is gotten by Batik Enterprises at 25% and the lowest one is gotten by animal farm at 10%. The higher amount of lending facility which is gotten by convection enterprises indicates that they have trusted by financial institutions rather than other enterprises. Otherwise, animal farm has a lower amount of lending at 10%. It indicates that animal farm sector has not been trusted as well as interested by financial institutions. It is because animal farm sector have a bigger risk than other enterprises. It is because the profit of animal farm cannot be gotten continuously as what other enterprises do.

4. Conclusion and Suggestion

Conclusion

According to above discussion, we can conclude that:

1. Risk level: convection sector has the lowest risk rather than other enterprises, and then followed by Batik enterprises, food and beverage enterprises, and the last is animal farm.
2. Owned capital needs: Batik enterprises have the biggest owned capital needs rather than other enterprises, and then followed by Convection, animal farm, food and beverage enterprises.

3. Capital needs: Batik enterprises have a highest amount of capital needs rather than other enterprises, and then followed by convection, animal farm, food and beverage enterprises.
4. Lending facility: Batik enterprises get the highest lending facility rather than other enterprises, and then followed by convection, animal farm, food and beverage enterprises.
5. Profit improvement: Batik enterprises have a great profit improvement at 34.04%, and the lowest profit improvement is gotten by convection enterprises at minus 9.64%.

Suggestion

1. In order to get a good assessment in lending facility, administration requirements should be completed.
2. Small and micro enterprises should have training and mentoring from financial institutions in managing capital credit with joint liability model.
3. Continuity is a trust which should be maintained by small and micro enterprises. That is why installment should be conducted weekly instead in conducting monthly as well as providing a saving box.

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