



## RESEARCH ARTICLE

### SUSTAINABLE PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTREPRISES IN KUDUS, INDONESIA: CASE STUDY OF PRODUCTIVE ENTREPRISES CREDIT PROGRAM

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#### ARTICLE INFO

##### Article History:

Received 14<sup>th</sup> December, 2016  
Received in revised form  
25<sup>th</sup> January, 2017  
Accepted 24<sup>th</sup> February, 2017  
Published online 31<sup>st</sup> March, 2017

##### Keywords:

Compensation,  
Delivery Executives,  
Motivation,  
E-commerce.

#### ABSTRACT

The government becomes an important part in the development of Micro, Small and Medium Enterprises (MSMEs). The Government of Kudus is trying to prosper the Kudus' business by providing a Productive Enterprises Credit Program. This program not only provides assistance with low interest loans, but also empowers the business. The purpose of this study is to analyze the role of government, especially in giving productive business credit program for MSMEs in Kudus. The analysis used in this study was a case study. The results of this study show how successful a productive business credit program for the welfare of the people of Kudus. Some indications of the success of the program are, (1) an increase in the number of jobs, (2) an improvement of the performance of MSMEs in Kudus, and (3) bad loans from the program is 0%. Managerial implication is a productive business credit program which can be implemented in all districts throughout Indonesia. The ability of this program to increase the prosperity and standard of living.

#### INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) get many difficult challenges. The challenges include: the reduction of production cost, the changes of consumers' behavior, the improvement of customers services, and the globalization (Massa & Testa, 2009). BDC Study (2015) found 9 challenges faced by SMEs including excessive debt level, difficult access to external financing, insufficient familiarity with market trends and competition, insufficient knowledge of new technologies, impact on liquidity/pressure on cash flow, difficulty in managing growth in an orderly fashion, stronger competition resulting from growth, difficulty hiring and retaining qualified personnel, and strong growth in operating costs. Other experts explain the challenges for SMEs including intellectual property (Sukarmijan & Sapong, 2014), the source of financing (Eniola & Entebang, 2015), and the ability of sensing the market (DeKrey & Portugal, 2014). One of problems faced by MSMEs in Indonesia is the financing. This financing will be the MSMEs capital to run the business. The capital plays significant role for the success of a business—as forming the basic of a business (Eniola & Entebang, 2015). MSMEs with insufficient capital will impact the its daily activities. To get the capital, the access into financial institution is very limited.

MSMEs have many limitation including: MSMEs limitation in gaining the capital information, MSMEs do not have enough warrant, and MSMEs do not have ability to manage finance gained from loan. Beside the financial matter, another problem faced by MSMEs is the ability to develop the enterprise. These problems must be noticed by the government due to the continuity of MSMEs contribution toward the region. Therefore, one of important things in MSMEs developing is the full support of the government. In Kudus, one of the government supports is by giving fund through low interest and without warranty. This program is called Productive Enterprise Credit or "Kredit Usaha Produktif". The recipients of Productive Enterprise Credit not only get credit without warranty but also receive some trainings from the government of Kudus Regency to increase the entrepreneurship competency. The increasing of entrepreneurship is certainly able to increase the success of the business (Covin & Slevin, 1991). The object of this study is to analyze the government support through Productive Enterprise Credit for the continuity of MSMEs in Kudus.

#### LITERATURE REVIEW

##### Government Support

Government support for MSMEs development is an important factors for the success of SMEs. Literally, government support is very important for MSMEs. For example, China government support makes the SMEs there success.

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Chen (2006) explained that there are government supports for the SMEs in China including: increasing the policy and measurement of SMEs development, eliminating the obstacles foun by the SMEs, level playing field for the development of SMEs, promoting the innovation, optimizing the structure of the industry for the SMEs, and increasing the quality and the competitive excellence for the SMEs. Herrera and Nieto (2008) explained that government support in the activities of research and development will motivate the innovation work of the SMEs. Wei and Liu (2015) divided government support into two parts, they are vertical and horizontal support. Both of them can increase the innovation work of the SMEs. Previously, the empiric study has examined the effectiveness of various government support used to stimulate the innovation work of the enterprise including direct R & D subsidy, tax incentive, public research conducted in public institutes, the knowledge transferring from university and R & D (Berube & Mohnen, 2009; David et al., 2000; Guellec & Van Pottelsberghe De La Potterie, 2003; Xu et al., 2014). Ye and Tiong (2000) explained the government roles in building the infrastructure.

In this digital era, MSMEs also must digitalize itself. However, various infrastructures which must be built sometime have expensive cost. Therefore, government support becomes important in developing ICT on the MSMEs. Spurge and Roberts (2005) explained that the government support in making policies especially related to ICT will increase the achievement of SMEs target. The other advantages are increasing the relation with the partners (Poon & Swatman, 1999), and enlarging the market (Ritchie & Brindly, 2000)

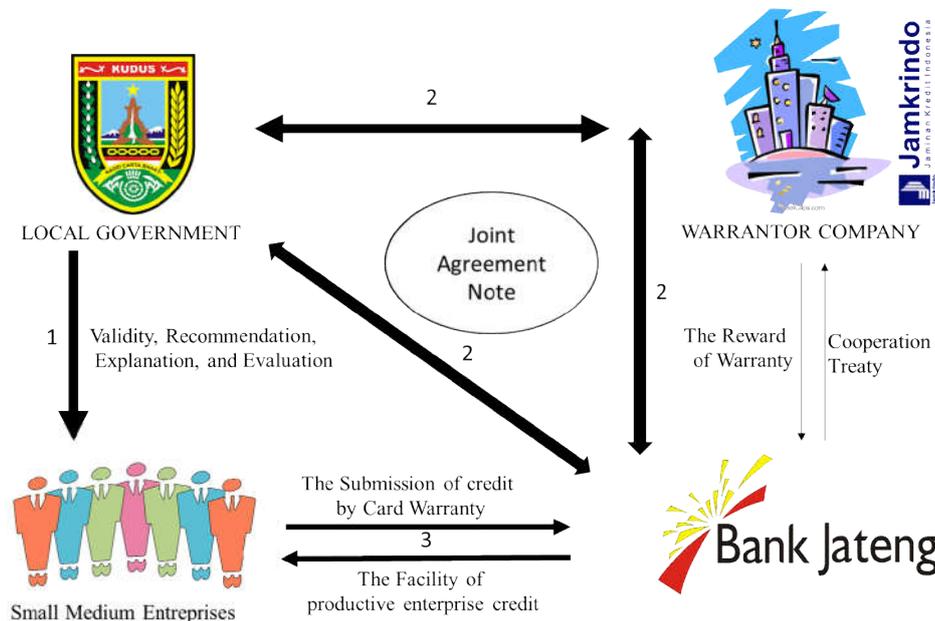
**Government Support on SMEs Financing**

SME financing is a number of mechanisms which gives additional fund for the development of SMEs (Abe et al., 2015). The source of the financing can be obtained from both internal and external (Kachlami & Yazdanfar, 2016). The internal source of financing is in form of capital deposited by the stockholders to the SMEs while the external source is obtained from bank, cooperation, BPR (*Badan Perkreditan Rakyat*—a institution which gives credit for people), or investors.

**Table 1. The Data of Productive Enterprise Credit (KUP)**

NUM.	ECONOMIC SECTOR	DEBITOR	PLAFOND	OUTSTANDING
1	Industries (steel industry, tofu, tempe)	276	2,479,000,000	2,264,391,245
2	Retailers	330	3,368,000,000	2,840,791,246
3	Fishing and herdening	27	268,000,000	254,275,682
4	Communication and services	109	1,061,000,000	983,123,245
5	Restaurant	128	694,000,000	598,355,858
		870	7,870,000,000	6,940,937,276

Source: Bank Jateng, Kudus, February 2016



**Figure 1. The Pross of MSMEs Financing**

**Table 2. The Data of Workers Absorbing**

PLAFOND	Debitor	WORKERS ABSORBING
1,000,000 – 5,000,000	289	578
5,000,001 – 10,000,000	324	1,341
10,000,001 – 15,000,000	118	708
15,000,000 – 20,000,000	139	1,112
	870	3,739

Source: Local Government of Kudus, 2016

Unfortunately, the developing countries like in Southeast Asia are experiencing the lack on the financing access. The government is not effective in giving (Economic and Social Commission for Asia and the Pacific (ESCAP), 2009). In Bangladesh, there are not more than 10 % SMEs having access to the financial institutions including bank or microcredit (Khandker et al., 2013). Capital and financial liquidity are very important for SMEs. Some experts explained that one of the difficulties faced by SMEs is the lack of financing (Ayyagari et al., 2008; Beck & Demircug-Kunt, 2006; Klonowski, 2012). The lack of financing will impact the growth of the SMEs (Klonowski, 2012). Beck and Demircug-Kunt (2006) explained that the lack of financing in the SMEs will give double impacts compared to big enterprise. Khandker et al. (2013) explained that the lack of financing will reduce the profit margin for 13.6%. The support of financial funding in SMEs needs the government's attention and support. In China, the government's financial support is focused through giving credit (Chen, 2006). Kachlami and Yazdanfar (2016) thought that the external financing sources will increase the SMEs growth. The research result of Abe et al. (2015) also explained that the lack of the SMEs financing in Asia and Pacific area will give significant impacts on the endurance and the growth of the SMEs.

## THE RESEACH METHOD

The study of productive enterprise credit in this paper used qualitative method (case study). This study explains the government support for the SMEs through productive enterprise credit. The discussion is started from the explanation about productive enterprise credit then finished by the result of the productive enterprise credit

## DISCUSSION

### Overview of *Kredit Usaha Produktif* (Productive Enterprise Credit)

KUP or productive enterprise credit is one programs conducted by the government of Kudus Regency which pays attention on the development of the SMEs in Kudus by giving credit for the SMEs with a low interest and without warranty. The object of productive enterprise credit (KUP) are the SMEs which run industry in agriculture, trading, and services which are feasible but not bank. The form of the credit is spaced and begun from 5,000,000 Rupiah, 10,000,000 Rupiah, 15,000,000 Rupiah until 20,000,000 Rupiah for each debtor. The purpose of the using of the credit is focused for capital work of SMEs or investment for there years. The interest of the productive enterprise credit (KUP) is 0.9% flat each month.

The extending process of the credit is as follows: The Regency government conducts validity, recommendation, explanation, and evaluation on the MSMEs which will apply to follow productive enterprise credit. After conducting these, the government will communicate with Jateng Bank (as the implementer of extending credit) and Jamkrindo (as the enterprise which guarantees the credit for MSMEs). All risks of the MSMEs credit are guaranteed by Jamkrindo, so Jateng Bank does not need to be worried if there is stuck credit. The MSMEs which ask for the credit will be given Productive Enterprises Credit's card.

This card is used as a warrant so the requester of the credit does not need to give a warrant in form of BPKB (Book of the ownership of vehicles) or land certificate. The warrant used in it is in form of card given by the regency government to the MSMEs. By bringing this card to Jateng Bank, the MSMEs will productive enterprise credit. The following picture shows the way of applying the productive enterprise credit.

### The Evaluation of Productive Enterprise Credit

Productive enterprise credit gives significant impacts toward both the development of the MSMEs and the financial condition of Kudus. There are the impacts of productive enterprise credit.

### Labors Absorbing

Literally, the MSMEs can create 79% of jobs in the world (Chen, 2006). This is also experienced by the MSMEs in Kudus. In 2016, there have been 870 MSMEs which get financial support from productive enterprise credit. The receivers of productive enterprise credit can absorb 3,739 workers. This means that productive enterprise credit is very helpful for Kudus government in reducing the unemployment (look at table 2).

### The MSMEs is freed from usurer

The very limited access to financial institution makes the businessman borrow money to the usurer. The usurers are like parasites (Bolnick, 1992). They take advantages from the entrepreneurs who need money urgently. Those entrepreneurs will return the money in greater amount. The interest given by the usurers is great. This often makes the entrepreneurs can not return the loan to the usurers. By productive enterprise credit, the entrepreneurs can borrow and return it without risking their enterprise. With low interest and warranty, the businessman in Kudus will be able to return it as its obligation.

### Increasing the performance of MSMEs

The local government of Kudus is one of government which is successful in empowering MSMEs in Indonesia. The work of the SMEs in Kudus is moving rapidly. Basically, the work of SMEs can be seen from the growth of the selling (Zheng et al., 2009), enterprise growth, customer satisfaction (Bakar et al., 2014), and the customer growth and market share (Carey, 2015; Zheng et al., 2009). The government support by giving the financial facility will increase the growth of the SMEs (Abe et al., 2015; Ayyagari et al., 2008; Beck & Demircug-Kunt, 2006; Economic and Social Commission for Asia and the Pacific (ESCAP), 2009; Kachlami & Yazdanfar, 2016; Khandker et al., 2013; Klonowski, 2012).

### The stuck credit is 0 %.

In the development, there are many MSMEs getting the productive enterprise credit (KUP). The data shows that there are many MSMEs taking advantage from the productive enterprise credit. Moreover, the data shows that the accustomed loan is 0 % (Bank Jateng Cabang Kudus, 2016). This can be concluded that the productive enterprise credit is not only successful in giving capital or investment for the SMEs, but also in motivating the SMEs to pay their obligation

in time, so there is no stuck among the SMEs. The training conducted by the government makes the entrepreneurs have more skills. One of the skills is financial literacy. Financial literacy will make the businessmen allocate and manage the financing of the MSMEs correctly. Beside financial literacy, the entrepreneurs can produce innovative products and manage the business correctly. Those skills will make the SMEs gain the profits maximally. Some of the profits will be used to pay the obligation of loan.

## Conclusion

Government support on financing the MSMEs can give positive impacts for the continuity of MSMEs. There are 3 impacts of government support (productive enterprise credit program) on the MSMEs: (1) the labor absorbing, (2) the SMEs are freed from usurers, (3) the increasing of MSMEs work, and (4) the stuck credit of SMEs is 0%.

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