

The Potential Demand for Credit to Enhance the Performance of Small and Medium-Sized Enterprises in South Lampung Regency

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Abstract. Small and Medium Enterprises (SMEs) play a crucial role in absorbing a significant portion of the workforce, making their growth directly tied to economic expansion. However, SMEs continue to grapple with the perennial challenge of limited access to capital. The restricted availability of credit sources underscores the need for financial institutions, government agencies, and other stakeholders to foster increased capital access for SMEs. An assessment of the credit potential of SMEs is essential to equip them with the knowledge of credit eligibility criteria. This research will delve into the potential of SMEs from legal and financial perspectives, aiming to provide SMEs with insights into suitable credit types and offer recommendations for tailored credit policies.

Keywords: SME, credit, credit access, SMEs performance

1 Introduction

Lampung Selatan Regency, one of the largest regencies in Lampung Province, Indonesia, possesses unique geographical and economic characteristics. Known for its abundant natural resources, the region encompasses diverse economic potentials, such as agriculture, fisheries, plantations, and forestry. However, despite its vast potential, Lampung Selatan Regency still faces various challenges in local economic development.

The abundant natural resources require prudent management and appropriate investment, particularly in the micro, small, and medium-sized enterprises (MSMEs) sector. MSMEs play a vital role in the regency's economy, serving as the backbone for job creation and income generation. Amid various sectors such as agricultural production, fisheries, crafts, and services, MSMEs act as drivers of economic growth. Nevertheless, the growth and development of these MSMEs heavily rely on adequate access to capital and financial support needed for investment, business expansion, and product and service quality improvement[1]. One of the primary

challenges faced by MSMEs in Lampung Selatan Regency is limited access to financial resources. The limited access could make the SMEs growth decline [2].

Restricted access to credit and financial support often hinders the growth and development of MSMEs. To reach their full potential, MSMEs require suitable credit options and financial solutions that can meet their needs. Therefore, a careful approach is needed from financial and non-financial institutions and related parties to facilitate MSMEs regarding the legality and financial capacity of each MSME business that applies for credit. Along with the ongoing population growth and increasing consumer demand, MSMEs have opportunities to expand their markets and increase their product sales. This creates pressure on MSMEs to invest in production capacity and relevant product development. Therefore, it is crucial to understand the potential of MSME credit in Lampung Selatan Regency and how credit provision can contribute to improving MSME performance in the region.

Through a deeper understanding of the potential and challenges faced by MSMEs in Lampung Selatan Regency regarding the legality and financial capacity, it is expected that strategies and policies can be formulated to support the development of the MSME sector, thus contributing significantly to local economic growth. In this context, this report will outline the potential credit that can be provided to MSMEs and analyze how this credit can be key in advancing the MSME sector and utilizing the existing economic potential. In order to support increased access to financing/credit for MSME development, synergy is needed from financial institutions, both banks and non-bank financial institutions (financing companies and venture capital), as well as other stakeholders. In order to enhance the role of financial institutions in channeling financing/credit for MSMEs, various aspects such as economic aspects and other aspects such as legality need to be considered for ease of access to financing.

2 Literature Review

2.1 The Role of MSMEs in the Local Economy

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the local economy of many countries, including Indonesia. They are known as the backbone of the economy due to their contributions to job creation, increased community income, and regional economic growth [3]. MSMEs often become the leading sector in local economic development because of the diversity of businesses they offer and their ability to respond to local market needs.

It is important to note that MSMEs not only play an economic role but also have a significant social impact. They often serve as a means to alleviate poverty and increase social inclusion, as they employ many members of the community who previously had no access to formal employment [1].

Additionally, MSMEs contribute to the development of skills and innovation in local communities. They encourage local entrepreneurs to develop products and services that meet market needs, which in turn can create a diverse and sustainable economic environment [4]. This innovative thinking drives local economic growth and contributes to the creation of added value in the economy.

However, the role of MSMEs in the local economy does not always come without challenges. They often face various obstacles, including limited access to capital, lack of access to wider markets, and complex regulations. Therefore, to maximize the positive impact of MSMEs on the local economy, appropriate support from the government, financial institutions, and related organizations is needed.

2.2 Credit and SME Growth

The role of credit in supporting the growth of Micro, Small, and Medium Enterprises (MSMEs) has been a major focus in economic and financial literature. Empirical studies have shown that access to adequate credit can be a significant driver of MSME growth.[4], in their research, found that MSMEs with greater access to credit are more likely to invest, expand their businesses, and increase productivity, which in turn contributes to regional economic growth. In addition, credit also has a positive impact on income and job creation. MSMEs that obtain credit tend to increase their income and ability to pay wages to workers. This stimulates consumption growth and contributes to improving the welfare of the local community [5]. In the context of local economic growth, credit-driven MSME growth can be a powerful growth engine.

Despite its importance, access to credit challenges remain an obstacle faced by many MSMEs. Strict requirements, lack of adequate collateral, and a lack of financial education often serve as major barriers to accessing credit [1]. Therefore, it is important for financial institutions and governments to formulate policies that support the provision of credit that is easily accessible to MSMEs. Appropriate and targeted credit can help MSMEs overcome these obstacles. For example, various credit programs organized by microfinance institutions and Regional Development Banks (BPD) in Lampung have proven effective in providing credit to MSMEs at the local level [6]. Such credit models offer solutions that are tailored to the needs of MSMEs and facilitate the growth of this sector.

According to [7], capitalization policies are the key to fostering Micro, Small, and Medium Enterprises (MSMEs). The government needs to facilitate MSMEs' access to credit by simplifying credit guarantee procedures, expediting land certification for micro-entrepreneurs, and fostering partnerships between MSMEs and financial institutions. Credit guarantee funds can be utilized by MSMEs that are eligible but lack sufficient collateral, while land certification can enhance the value of collateral. Partnerships with financial institutions such as KKMB or LPJK can provide mentoring and advocacy for MSMEs in accessing financing.

[8] demonstrate that many MSMEs remain feasible but have not gained access to credit. The challenges and opportunities for expanding the reach of credit programs are vast. Increasing this reach should have a positive impact on MSME empowerment, such as increasing income and job opportunities. Research shows that MSMEs receiving credit perform better than those that do not. To increase the reach and impact of credit programs, several efforts are needed, such as increasing the proportion of credit outside the trade sector, involving Microfinance Institution (LKM) and cooperatives, and relaxing microprudential regulations. Additionally, legal frameworks should be strengthened to anticipate and mitigate commercial disputes between banks and their partner LKM and cooperatives.

3 Research Method

This study employs purposive sampling to determine the research sample. Purposive sampling primarily involves selecting the districts/cities to be studied. The types of primary data in this study are presented in Table 3.1, and the respondents are shown in Table 3.2.

Table 1. Types of Survey Data

No	Type of Survey
1	General Respondent Information Survey
2	Survey on Legal Aspects and Document Ownership
3	Survey on Business Activity Aspects
4	Survey on Balance Sheet Aspects
5	Survey on Profit and Loss Aspects
6	Survey on Financial Projection Aspects
7	Survey on Financing Needs Aspects

Table 2. Types and Number of Respondents

Respondent	Number of Respondents
Jati Agung Subdistrict	8 MSMEs
Natar Subdistrict	10 MSMEs

This research is a descriptive study that collects both primary and secondary data, which is then compiled and analyzed to provide an overview of the existing problem. Primary survey data are collected directly from respondents. These data encompass respondents' answers, opinions, suggestions, desires, or viewpoints. Secondary data was primarily obtained from the Department of Trade, Bank Indonesia (BI), the Ministry of Cooperatives and SMEs, and the Regional Cooperative Office. The mechanism for obtaining this data involved: a. Identifying secondary data. b. Identifying the institutions that store secondary data. c. Requesting an introduction letter from the university to the relevant institutions. d. Coordinating with the relevant institutions to obtain the desired secondary data.

The data obtained is for the period of 2023. The data source covers all areas in South Lampung Regency, Lampung Province. The unit of analysis is based on sub-districts and annually.

4 Result

4.1 Respondent Profile

This study involved respondents from two different sub-districts, Jati Agung and Natar Subdistricts, with a total of 18 MSMEs as respondents.

Table 3. Respondent Profile

Main Product Type	Quantity	Percentage
Handicrafts	6	33%
Food	7	39%
Fashion	3	17%
Medicine	1	6%
Cattle	1	6%
Total	18	100%

Table 1 presents data on the primary products produced by a group of 17 MSMEs (Micro, Small, and Medium Enterprises). It categorizes these products into five main types: handicrafts, food, fashion, medicine, and cattle. **Food is the most popular product:** 39% of the MSMEs surveyed specialize in food production. This suggests that food-related businesses are a significant part of the local economy in the region. **Handicrafts are the second most popular:** 33% of the MSMEs produce handicrafts, indicating a strong tradition or demand for handmade goods. **Fashion and related products:** 17% of the MSMEs are involved in the fashion industry, suggesting a moderate presence of this sector. **Medicine and cattle:** These two categories account for a smaller percentage of the MSMEs, each representing 6% of the total.

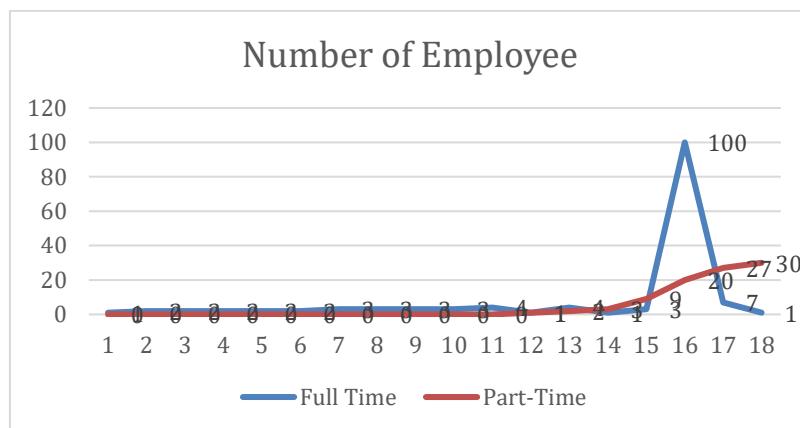


Fig 1. Total Employee of SMEs in South Lampung

Figure 1 illustrates the total workforce of the SMEs studied. The data reveals that a significant portion (14 SMEs) employed an average of 0-3 workers, encompassing both full-time and part-time staff. The findings suggest a notable reliance on part-time workers within the SME sector of Lampung Selatan.

4.2 The Legal Compliance of SMEs

When SMEs seek loans or credit from financial institutions, their eligibility is often assessed based on their legal standing. Financial institutions aim to ensure that SMEs meet a number of legal requirements to minimize credit risk. Table 4 shows some legal aspects that can influence an SME's eligibility for credit.

Table 4. The Legal Documents of SMEs

Document	Number of SMEs	%
Identity Card	18	100%
Family registration certificate	18	100%
Marriage Certificate	3	17%
Taxpayer Identification Number (NPWP)	18	100%
Business License	1	6%
Company Registration Certificate	0	0%
Deed of Establishment	0	0%
Ministerial Decree	0	0%

The results of the analysis of SME legal documents presented in Table 4. It lists the legal document possessed by the SMEs and shows that SMEs possess identity cards and family registration certificates as basic documents required for ownership. The table indicates that while SMEs may possess basic identification documents, they often lack formal legal structures and registrations. This suggests a need for greater awareness and support in complying with legal requirements to enhance business sustainability and access to formal financing.

Therefore, this legal data can serve as a guideline for SMEs to understand the necessary documentation to obtain easier access to credit that supports their business growth and development. Compiling these documents effectively is a crucial step in establishing a strong legal foundation, which in turn will enable businesses to more easily access the financial resources required for their growth. Moreover, a thorough understanding of legal requirements will also assist SMEs in complying with relevant government regulations. This is essential in ensuring the sustainability and legal compliance of the business. For instance, possessing an NPWP is a significant step in ensuring accurate tax payments, which in turn can support the integrity and financial sustainability of the company.

For SMEs that have reached a certain stage in obtaining legal documentation, the next step would be to complete the remaining documentation. In some cases, consultation with legal institutions or experts may be necessary to provide guidance and assistance in meeting the applicable legal requirements. In order to capitalize on credit potential and other financial resources, SMEs should prioritize completing legal requirements. This will enable them to access more opportunities that support their business growth, including special credit programs for SMEs. With proper attention to legal matters, SMEs can strengthen their market position and contribute more significantly to the economy of Lampung Selatan Regency and the communities they serve. Considering the additional requirements that many SMEs have yet to fulfill, there is a need for additional provisions to meet these requirements.

4.3 SME Viability Based on SME Financial Statement

The financial statements analyzed in this study included the balance sheet, income statement, financial projection statement, and funding needs statement. Table 5 shows that from the balance sheet perspective, the largest asset of each SME lies in fixed assets such as land and buildings. These two assets constitute the largest portion of the SME's balance sheet structure, indicating that SMEs allocate their funds to build production facilities and also use the assets as collateral [9]. From the liability side, the funding source used by SMEs is equity, signifying that SMEs have not yet had access to other funding sources and still rely on equity. The research findings indicate that SMEs rely on equity and have limited access to capital [10].

This suggests that SMEs have the potential to obtain other funding sources for business development.

The potential for SMEs to obtain funding is also supported by the net profit earned during 2023. Figure 2 presents the net profit during 2023, indicating that SMEs generated an average net profit of 139 million Rupiahs. Meanwhile, there is one SME with the highest net profit of 856 million Rupiahs, which is an SME in the fashion industry. According to [11], profitability has a positive significant effect on firm's growth. Thus, SMEs should be able to leverage the profits they earn to enhance their performance.

Table 5. The Average of Assets, Liabilities, and Equity of SMEs (in Million Rupiah)

Cash	45,1	Short-term debt	0,0
Deposit	16,7	accounts payable	0,0
Account			
Receivable	57,3	Long term debt	0,0
Inventory	116,5	Other liabilities	0,0
Land	215,1		
Building	131,9	Shareholder equity	637,9
Machines	32,1	Retain earning	3,1
Vehicle	14,8		

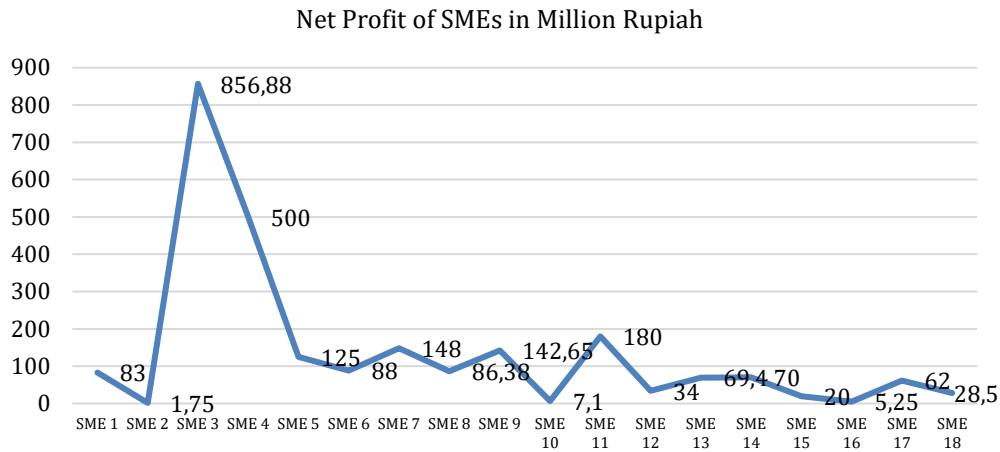


Fig 2. Net Profit of SMEs in 2023

Table 6 presents the average financial projections of the 18 SMEs sampled in this study. The financial projections indicate that SMEs have substantial needs for working capital and investment, underscoring the critical role of financial institutions in meeting these requirements [12]. The demand for investment and working capital is further supported by the optimistic sales projections of SMEs, averaging 18.3 million Rupiahs.

Table 6. Financial Projection

Sales Projection	Projected Investment and Working Capital Requirements	The Ability to Self-Finance
18,3	326,6	45,3

The results of this survey indicate that small and medium-sized enterprises (SMEs) have substantial funding needs. These financial requirements are primarily directed toward expanding market share, increasing production through the acquisition of new machinery, and product development. These findings show the diversity of financial needs and strategies within companies, providing insight into the various ways in which credit is utilized in the business world. Decisions regarding credit applications are influenced by each company's specific strategies and needs, as well as their ability to manage the financial obligations arising from such credit. This financial projection analysis highlights the importance of aligning sales growth with the availability of internal funds within the company. Careful financial planning and efficient fund management are essential for achieving sustainable growth. Additional funding sources may be necessary for companies experiencing high growth but with significant investment needs.

Discussion

South Lampung Regency demonstrates substantial potential for small and medium-sized enterprises (SMEs), spanning various sectors including agriculture, manufacturing, and services. SMEs play a crucial role in supporting the local economy and creating employment opportunities. Research shows that the prudent use of SME credit can positively impact SME performance. Funds obtained through credit are used for business expansion, equipment purchases, product quality improvement, and business diversification, all of which contribute to SME growth and increased revenue. Despite the potential and access to credit, some SMEs in South Lampung Regency continue to face challenges in meeting financing requirements. These challenges relate to banking policies, availability of collateral, and companies' ability to navigate the credit application process. Based on research findings, several recommendations can help enhance SME performance in South Lampung Regency. A comprehensive approach is needed to provide assistance and training for SMEs in financial management and business operations. Financial institutions may also consider innovating credit products to accommodate the unique needs of SMEs.

5 Conclusion

The credit potential for MSMEs (Micro, Small, and Medium Enterprises) in South Lampung Regency has a significant positive impact on enhancing MSME performance. With a prudent approach, financing can serve as a catalyst for local economic growth. However, attention is needed to address the challenges faced by MSMEs in accessing credit, along with close collaboration among stakeholders to create an environment that supports MSMEs in leveraging credit potential. Thus, MSMEs in this region can continue to grow and play an essential role in regional economic development. Based on the findings of this survey, we provide several recommendations as guidelines to support the credit feasibility of MSMEs in South Lampung Regency in 2023:

- a. Enhancing MSME Capacity: Financial institutions, the government, and relevant organizations should collaborate to provide training and mentoring programs for MSMEs. This will assist MSMEs with lower capacities in managing credit funds more effectively and improve their chances of success.
- b. Improving Access to Information: Increasing MSMEs' access to information regarding regulations and credit requirements. This can be achieved through outreach and information campaigns to ensure that all MSMEs understand the procedures and requirements needed to obtain credit.
- c. Collaboration among Financial Institutions: Financial institutions need to collaborate effectively in providing credit to MSMEs. They should also consider offering various types of credit that match the diverse needs of MSMEs with varying capacities.
- d. Routine Monitoring and Evaluation: Establishing regular monitoring and evaluation mechanisms for the credit provided to MSMEs. This will help ensure that the credit is utilized properly and has a positive impact on MSME growth.

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