INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

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INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

LIMITATIONS

SCOPE FOR FURTHER RESEARCH

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APPENDIX/ANNEXURE

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THE INFLUENCE OF MICROECONOMIC FACTORS TOWARDS NPL OF MICRO SMALL ENTERPRISES (MSE) BANK XYZ

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ABSTRACT
The current global economic condition is a challenge for micro-banks to anticipate the slowing credit growth and increase in Non Performing Loan (NPL). NPL is one of the credit quality parameters and effects the bank's profit, whereby the higher of NPL, the greater cost must be reserved by the bank. This research analyzes the influence of microeconomic factors in the form of customer training, age of debtor and portfolio of agriculture sector, hunting, forestry & plantation toward NPL of Bank XYZ. The method used is panel data analysis. The results showed that training classes, age of debtors and portfolio of agriculture, hunting, forestry & plantation sector toward NPL of Bank XYZ.

KEYWORDS
non performing loan (NPL), micro small enterprises (MSE, also known as UMK), microeconomic factors.

INTRODUCTION
Banks should ensure that credit disbursement is in accordance with the plan with good credit quality. Micro, Small and Medium Business Segment also known as UMKM, a business segment considered by many as resistant to the crisis, has great potential and becomes a supporter of economic growth. The 20% quota of UMKM credit and large income potential make many banks entering this segment.

Bank XYZ as one of the banks that focus on UMKM, has UVP (Unique Value Preposition) of customer empowerment through various programs provided by banks to customers. Business unit in Bank XYZ focusing on micro credit distribution is the Directorate of UMK. To improve the skills and knowledge of customers in running the business, the Directorate of UMK provides training to customers to grow and develop their business. This training program is not only part of UVP (Unique Value Preposition) and CSR (Customer Social Responsibility), but also one way to maintain credit quality. The customer loan repayment rate will be well maintained if the customer's business grows and expands as expected.

Non Performing Loan (NPL) Micro Small Enterprises (MSE) Bank XYZ has increased since 2013. This is in line with the increase of SM (Special Mention) on the period beginning in 2013 which indicates a decline in credit quality. Changes in credit quality can be caused by macroeconomic and microeconomic factors. Microeconomic factors are factors that exist within the circle of bank influence. Debtor age and long run of business is one factor that shows the ability of the debtor in running and managing the business in order to grow and develop. The quality of sectoral credit in the portfolio is also an indicator of changes in bank credit quality. In line with the potential of Indonesia in the field of agribusiness, the government encourages banks to maintain and increase credit distribution of MSMEs is the agricultural / agribusiness sector because of its high potential and many people who run productive businesses in the field of agriculture. One of the client empowerment programs that is run is a customer training program that is expected to provide benefits to the bank indirectly in the form of credit quality improvement as a result of the growth and development of business customers after assisted by training programs. Along with the effort to make efficiency and to ensure that the training can be in accordance with the current technological developments / conditions, Bank XYZ has freezed its customer training program since June 2016 and will be reviewed since the budget required for the program is quite large.

LITERATURE REVIEW
Credit Quality is set to: Current, Special Mention, Substandard, Doubtful and Loss (PBI No. 14/15 / PBI / 2012). Banks are required to anticipate potential losses from provision of funds by performing PPA (Allowance for Asset Losses) that is reserves that must be established for a certain percentage of asset quality (Hariyani dan Toruan, 2010). According to Sjafitri (2011), credit fluctuation greatly determines the credit quality provided. Non Performing Loan (NPL) is a debtor or group of debtors who fall into the class of 3, 4, 5 from 5 categories of credit that is debtor that is substandard, doubtful and loss. The change of credit classification from current credit to NPL is gradually through the process of credit quality reduction (Dunil, 2005).

NPL reflects credit risk, the smaller of NPL, then the smaller of credit risk borne by the bank. Banks with high NPL will increase the cost of both the provision of earning assets and other costs, so that the potential loss to the Bank (Mawardi, 2005). Banks are required to anticipate potential losses from provision of funds by performing PPA (Allowance for Asset Losses) that is reserves that must be established for a certain percentage of asset quality (Hariyani dan Toruan, 2010). According to Sjafitri (2011), credit fluctuation greatly determines the credit quality provided.

Microeconomic factors related to credit quality are the factors that are conducted or occur within the circle of the bank's internal influence. One form of customer empowerment is business training. Agung (2015) in his research said that the business education / training program of the customers, after following several stages or trainings, gives positive influence and gives a good return of capital. Based on research Triwibowo (2009), agribisinis sector and long business effect the level of non-performing loans. According to Mahmudah (2013), the development of NPL is influenced by three things: internal bank factors, internal factors of debtors and external factors of non-bank and debtors. Internal bank factors related to the analysis that is not in accordance with the principle of credit analysis 5C

(Character, Capacity, Capital, Collateral, and Condition) and bank supervision, LDR (Loan to Deposit Ratio), CAR (Capital Adequacy Ratio), Interest. While the internal factor of the debtor consists of age and character.

OBJECTIVES

This study has the following objectives:
1. Analyze the influence of debtor training classes towards NPL of Bank XYZ.
2. Analyzing the effect of debtor age towards NPL of Bank XYZ.
3. Analyzing the effect of agricultural, hunting, forestry and plantation portfolio towards NPL of Bank XYZ.

HYPOTHESIS

The hypotheses of this study are as follows:
1. The number of debtor training classes has a significant and negative effect towards NPL of Bank XYZ.
2. Debtor age has a significant and negative effect towards NPL of Bank XYZ.
3. Portfolio of agriculture sector, hunting, forestry and plantation have real and positive effect towards NPL of Bank XYZ.

RESEARCH METHODS

The data used in this study is monthly data from bank XYZ during the period 2011 - 2016 based on the credit distribution area. The types and sources of research data are presented in Table 1.

TABLE 1: VARIABLE OF RESEARCH DATA

Variable Types	Variable
Independent (X)	▪ Number of debtor training classes ▪ The average age of the debtor ▪ Persentage of portofolio of agriculture sector, hunting, forestry, & plantation
Dependent (Y)	Non Performing Loan

The method used in this research is panel data regression with data processing using softaware e-views. Panel data is a combination of time series and cross-sectional data to find out the description of the data and the model exploration of the data obtained, a test is performed to select the most appropriate technique by using the Chow test to determine the common effect model or fixed effect, Hausman test to choose whether the fixed effect or random effect model and Lagrange multiplier test to select the random effect or common effect (OLS) model.

RESULTS AND DISCUSSION

Bank XYZ is one of the banks that focus on financing Micro Small Enterprises (MSE/UMK). Based on its annual financial report, the highest portfolio of MSE Bank XYZ is in 2013 reaching 10.2 trillion rupiahs and decreased up to 7.2 trillion rupiah by the end of 2016. In line with the declining portfolio is followed by a decrease in portfolio current ratio from 92.2% in 2013 to 90% in 2016. XYZ Bank's MSE portfolio is presented in Table 2.

TABLE 2: MSE PORTFOLIO OF BANK XYZ

Year	MSE						Total Loans	% MSE toward total loans
	Current	Special Mention	Substandard	Doubtful	Loss	Total		
2010	4,057,154	340,968	93,306	99,852	42,268	4,633,548	23,328,089	19.86%
2011	6,300,454	291,623	65,226	83,796	44,344	6,785,443	30,310,157	22.39%
2012	8,436,802	382,202	62,412	78,018	46,801	9,006,235	38,844,096	23.19%
2013	9,467,947	539,236	92,119	107,197	56,928	10,263,427	46,105,437	22.26%
2014	8,605,541	587,796	95,514	130,889	62,134	9,481,874	51,993,574	18.24%
2015	7,920,139	575,622	74,222	114,724	47,265	8,731,972	58,587,383	14.90%
2016	6,453,080	502,661	65,093	109,834	39,195	7,169,863	63,168,410	11.35%

Source: Bank XYZ Financial Report (publication)

Based on Chow and Hausman test, it is found that the most appropriate method is Fixed Effect Model. The result of fixed effect model is presented in Table 3.

TABLE 3: MICROECONOMIC FACTORS EFFECTING NPL

Variable	Coefficient	Prob.
C	0.061782	0.0000
Number of training classes	-2.46E-05	0.0000
The average age of the debtor	-0.000639	0.0043
Portfolio of agriculture, hunting, forestry and plantation	0.082532	0.0000
R-squared	0.336523	
Prob(F-statistic)	0.000000	

R-square model of 0.3365 means the diversity of Y that can be explained by the three variables in the model of 33.65%, while the remaining 66.35% is explained by other factors outside the model. Based on t test results, the factors that have significant effect toward NPL are number of training class, age of debtor and portfolio of agriculture, hunting, forestry & plantation.

In this study, the number of training classes has a significant and contrasting effect with the NPL ratio, with each increase of 1 training class will effect the NPL reduction of 2.46E-05 percent. The training class has a noticeable but small effect. This is due to the low link between the usefulness of the training and its implementation in increasing the debtor's business. Thus, the type and content of the training needs to be sharpened and tailored to the needs of current customers so that it is useful for growth, increased profits and leads to customer welfare so as to help improve customers' paying ability. The number of training classes declined in 2015 due to XYZ's focus on quality improvement as 2015 was a tough year for banks with an increase in NPL almost all sectors. This research is also in line with research conducted by Winarta (2013), where customer training programs provide knowledge to better manage businesses, increase sales turnover and scale up businesses.

Debtor training is a place for debtors to improve their competence so as to help the growth of business to achieve better profit. Power training conducted by Bank XYZ began intensively from the beginning of 2010 until May 2016. The training consisted of modules related to the debtor's business, such as financial module, marketing, and so forth.

The training conducted in bank XYZ is consistent with a large number in Q2 2011 until the end of 2015. This consistency trend is also in line with the stability of NPL's ratio presented in Figure 1.

FIGURE 1: NUMBER OF TRAINING CLASSES AND NPL CLASSES OF MSE BANK XYZ

Number of Training Classes　　　　'NPL (%)
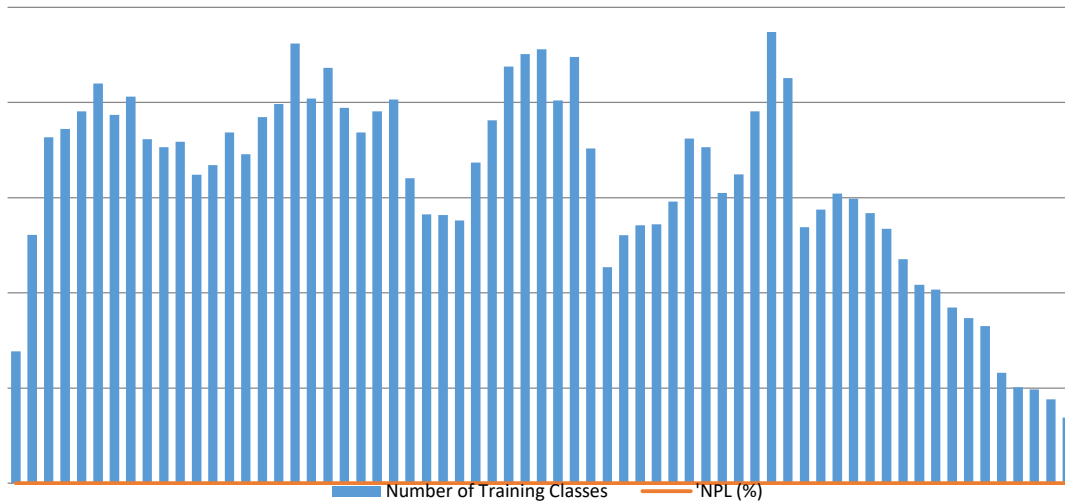
The average age of the debtor has a significant and opposite effect on the NPL ratio, where every 1 year increase in the debtor's age causes a decrease in NPL by 0.000639%. The small number of age-related effects towards NPL is because the average increase in age has not been matched by a significant increase in business management capability. This research is in line with research conducted by Lubis (2011), where the age of the debtor affects the quality of bank credit. The results of this study are also in line with the research conducted by Musthikaningtyas (2011), Rachmat (2009), and Windariani & Wirawati (2017), where the quality of loans is increasing in line with the age of customers.

The ability of the debtor to manage the business affects the growth of the business, which will ultimately effect the ability to pay the bank. Debtor age in this study is categorized as a proxy that is considered to represent the ability of the debtor in managing the business. Based on descriptive analysis known that the average age of debtors in Java is relatively older compared with the average age of debtors in Eastern Indonesia (IBT) and Sumatera. The decrease of NPL in Java region is caused by the ability of the debtor to pay the business growth. This is due to the increased ability in business management. The older of the debtor age, the higher the ability of the debtor to manage the business and ultimately easier to grow and develop.

The age of the MSE debtors in Bank XYZ is mostly at the productive age of 35-45 years. This is maintained from 2012 - 2016, indicating that bank XYZ maintains the quality of the loan by maintaining the most portfolio is the debtor who has a productive age and relevant with a good level of competence, while the ratio of the number of debtors who are young also from year to year experienced significant decline. The number of debtors by age range in the segment of MSE Bank XYZ is presented in Table 4.

TABLE 4: NUMBER OF DEBTORS BY AGE RANGE IN SEGMENT OF MSE BANK XYZ

Age (Year)	2012		2013		2014		2015		2016	
	NoA	%	NoA	%	NoA	%	NoA	%	NoA	%
< 25	4,572	1.87%	4,438	1.73%	3,332	1.51%	1,308	1.19%	765	0.93%
$25-35$	63,266	25.84%	62,652	24.41%	49,848	22.64%	21,687	19.75%	14,389	17.51%
$35-45$	95,537	39.02%	99,641	38.82%	85,773	38.96%	42,427	38.65%	31,508	38.34%
$45-55$	60,163	24.57%	65,439	25.49%	58,467	26.56%	31,346	28.55%	25,174	30.63%
> 55	21,276	8.69%	24,529	9.56%	22,747	10.33%	13,012	11.85%	10,341	12.58%

Source: Bank XYZ internal data

The portfolio of agriculture, hunting, forestry and plantation sectors in MSE Bank XYZ in Sumatera is about 5% of the total portfolio in Sumatra region, larger than Java and Eastern Indonesia (IBT). The results show that there is a real and direct effect between agricultural sector, hunting, forestry and plantation portfolio to NPL, where every 1% increase of portfolio of this sector will increase the NPL by 0.082532%.

Loan disbursement to the agricultural, hunting, forestry and plantation sectors in MSE Bank XYZ also has a portion that is not too high and ranges below 7%. The highest period of the portfolio is during the period of 2013-2015. Sumatra region provides the highest portion of the portfolio ratio, but has increased NPL ratio from 2015-2016 period. The decline in NPLs in recent years occurred in Java, while in IBT (Eastern Indonesia) tends to be stable. Portfolios of agriculture, hunting, forestry and plantation sectors are presented in Figure 2.

FIGURE 2: PORTFOLIO OF AGRICULTURE, HUNTING, FORESTRY AND PLANTATION SECTORS

'Portofolio (%) - Sumatera　　'Portofolio (%) - Jawa　　'Portofolio (%) - IBT
' NPL (%) - Sumatera　　' NPL (%) - Jawa　　' NPL (%) - IBT
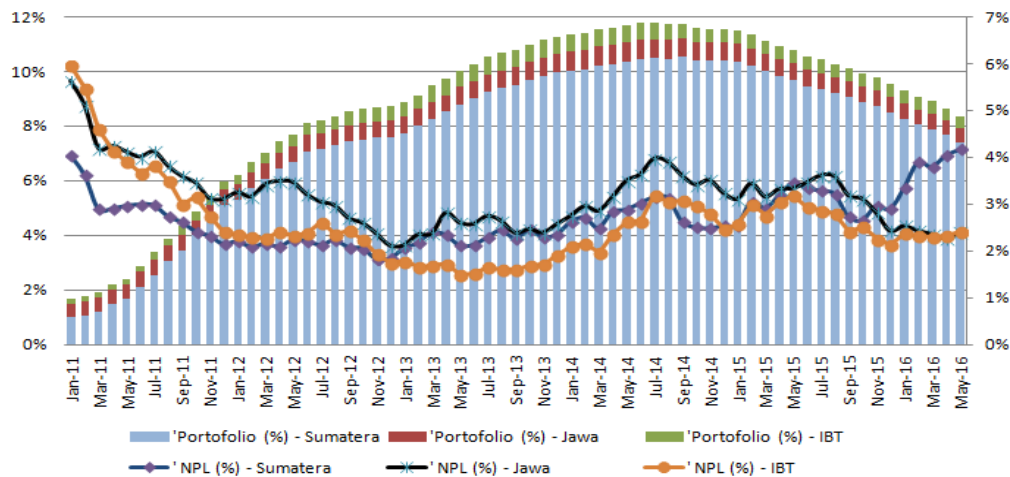
The increase in NPL ratio in Sumatra is thought to be related to the decline in world oil prices at the end of 2014-2016. The decline in oil prices led to a sharp decline in commodity prices. The impact of this is a significant increase in banking NPL from the commodity sector, especially rubber and agricultural commodities that are effected by world oil prices.

Agricultural NPL in Bank XYZ during 2012-2016 remain well maintained despite an increase in 2014 and 2015 but may fall back by the end of 2016. The NPL ratio based on the economic sector in Bank XYZ is presented in Table 5.

TABLE 5: RATIO OF NPL IN BANK XYZ BY ECONOMIC SECTOR

Economic sector	2012	2013	2014	2015	2016
Household	0.20%	0.25%	0.26%	0.27%	0.32%
Trading	2.22%	2.15%	1.97%	1.89%	1.83%
Industry	2.18%	2.75%	1.66%	1.08%	1.77%
Other services	1.76%	0.87%	1.57%	0.91%	1.46%
Agriculture	2.75%	2.09%	2.44%	2.62%	2.04%
Accommodation services	1.18%	2.61%	1.98%	1.70%	2.16%
Construction	1.55%	2.92%	0.32%	0.00%	0.00%
Transportation & communication	2.19%	4.37%	0.60%	0.19%	0.12%
Mining	18.03%	1.25%	0.73%	1.07%	0.01%
Others	0.04%	0.00%	0.75%	1.13%	1.01%

Source: Bank XYZ Financial Report

RECOMMENDATION

Based on the results of the research, the Bank needs to remain consistent to maintain the channeling of credit to productive and proficient customers in running the business. The customer training class has a significant effect on the quality of the credit, so it is necessary to re-train with more training types and materials to improve the growth and profitability of the customer's business.

Loan disbursement to MSE remains selective despite improvements in macroeconomic conditions and remains with the principles of 5C are well managed. Credit disbursement to the agricultural, hunting, forestry and plantation sectors can be increased because in addition to its large potential, the level of influence towards NPL can still be managed properly. However, this should still take into account the influence of macroeconomic factors, particularly those affecting commodity prices.

CONCLUSION

Based on the results of the discussion and data analysis, the number of debtor training classes has a significant positive effect on the quality of MSE credit. Increased customer competence needs to be done by the Bank to maintain good credit quality through business training, marketing or other models in accordance with current technological developments.

Business management capability reflected in the age of customers has a negative and significant impact on the quality of MSE credit. Loans to the agricultural sector, hunting, forestry and plantation have a positive and significant impact on credit quality of MSE. This sector's credit distribution can still be improved by taking into consideration the macroeconomic factors affecting commodity prices.

THE SCOPE OF SUBSEQUENT RESEARCH

Further research can be developed to influence macroeconomic factors of each region (inflation, and economic growth) to NPL of credit distribution area. Need further research is also conducted on the effect of macroeconomic and microeconomic factors on the loan provision that describes directly the cost of PPAP that must be reserved by banks related to productive assets.

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