

Enterprise Credit for Manufacturing

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*Report on a survey of banks in West Java to understand internal
policies and issues affecting the supply of enterprise credit in
the manufacturing sector*

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Executive Summary

Banks play an important role in intermediation and allocation of financial resources. Typically, banks mobilize a majority of their funds through third party savings, which are then lent to individuals and firms.

In Indonesia, banks broadly categorize lending into “consumption” and “production” loans. Although not strictly defined, personal borrowing for purchase of goods, services, and housing are categorized as consumption loans. Loans to enterprises or businesses for working capital and investment are considered as credit for production.

A large share of enterprise or production loans are for the trade and services sector. Trade and services are key economic activities, and combined, these two sectors are a significant source of employment in Indonesia. According to the labour force survey (SAKERNAS) of 2018, almost 48 percent of workers employed in Indonesia were involved in trade and services.

Historically, the growth of manufacturing has provided the platform for industrialization and increased labour productivity. In the 1980s and early 1990s, Indonesia saw a rapid growth of its manufacturing sector, which often exceeded the overall GDP growth. At its peak in 1997, the value added in manufacturing was 26.7 percent of the total GDP.

Nearly 13 percent of the total workforce was employed in manufacturing. Since then, the manufacturing sector has seen a modest growth in both value-added and job creation. Although the absolute number of manufacturing workers has increased, the proportion of workers in manufacturing increased marginally to 13.3 percent in 2017.

Considering the importance of manufacturing, the Indonesian government has prioritized revitalizing the sector through various policy measures including a strategy of “*Making Indonesia 4.0*”. The strategy calls for harnessing the potential of digitalization and the growth of five manufacturing sub-sectors in which Indonesia has comparative advantage.

To address the financing needs of enterprises engaged in manufacturing, there is a dedicated credit window in the *Kredit Usaha Rakyat* (KUR), which is a national credit guarantee scheme. Through partial loan guarantee and interest rate subsidy, KUR aims to increase lending for small enterprises and production sectors of the economy. However, only seven percent of the KUR loans went to manufacturing while the majority of loans went to trade (53 percent) and services (13 percent).

In light of renewed focus on manufacturing and national initiatives to narrow the financial gap, especially for small enterprises, a survey was conducted in West Java. The survey is part of a project titled “Promoting Micro and Small Enterprises through Entrepreneurs’ Access to Finance (PROMISE IMPACT)”. The International Labour Organization is implementing the project in partnership with the Swiss Secretariat for Economic Affairs (SECO) and the Financial Services Authority or Otoritas Jasa Keuangan (OJK).



PROMISE IMPACT aims to improve access and quality of financial services to small and medium enterprises (SMEs) through pilot testing, research, and capacity development with several banks and non-banking institutions in the country. As part of the policy development support, the purpose of the survey was to better understand internal policies, procedures, and capacity that affect lending decisions of banks across different economic sector. In particular, the survey was expected to shed more light on the low proportion of credit for the manufacturing sector, especially among SMEs.

A total of 192 loan officers and credit analysts were interviewed in 58 banks, which were randomly chosen. All the major commercial banks in the province were included in the sample, but the majority of respondents were rural banks or *Bank Perkreditan Rakyat* (BPRs). Proportionally, the sample mirrored the share of different banks with the largest group being BPRs. A total of 277 BPRs are currently operating in West Java.

West Java is one of the main manufacturing hubs in Indonesia. The size of the industrial sector was an important criterion for selecting this province. It was assumed that with a large manufacturing sector there must be an adequate demand for financing. The survey primarily focused on supply-side constraints and, thus, by choosing West Java an attempt was made to minimize the “lack of demand” related issues coming to light in the survey. Also, it is important to note that findings from this survey cannot be extrapolated at the national level. The findings may be indicative of bank financing in those provinces, which have a relatively large industrial including manufacturing share in the economy.

The survey shows that a majority (86 percent) of loan officers are men. Among the credit analysts, the percentage of females is slightly higher (23 percent). Compared to commercial banks, BPR staff are academically less qualified. Approximately 37 percent of BPR loan officers and credit analysts have senior high school (SMA) diplomas. In contrast, 92 percent of loan officers and credit analysts in commercial banks have at least a university level degree (bachelor’s or higher). No difference was noted in the educational qualification of male and female staff.

It appears that staff receive limited training at work. Approximately 22 percent of staff had never participated in any training. Among those who were trained, the frequency was generally low, averaging 1.2 times over a five-year period. Training provided to the loan officers mainly related to a specific function such as the marketing of loans.

Our analysis of data concerning the relationship between experience, training, and performance yielded mixed results. Loan officers with more experience were able to acquire more clients, but that seemed to be the case for those with a few years of experience (3-5 years). Additional years of experience after that did not show any relationship with the number of clients. However, loan officers with more than 15 years of experience were able to find more new clients.

On average, BPR loan officers secured 35 new clients in a six-month period while loan officers in commercial banks obtained only nine new clients. However, the size of the loans or revenue generated through new loans is much higher for commercial banks. On average, the loan size of commercial banks was IDR 100 million while BPR loans averaged IDR 42 million.

An interesting finding from the survey was that the perception of high-risk associated with certain sectors such as manufacturing and agriculture can be attributed more to the lack of familiarity of the sectors rather than any concrete evidence or market research. The perception of risks and ease of lending discussed below explains this.

A large proportion (72 percent) of loan officers prefer productive loans compared to credit for consumption. Nearly 42 percent of loan officers who prefer production loans consider them less risky, compared to only 10 percent of loan officers who prefer consumption. The remaining 90 percent who prefer consumption cited the ease of lending as the main factor.

Sector composition of production loans shows that 60 percent of the loans approved were for trade. Manufacturing constitutes only 15 percent, while agriculture loans are less than 3 percent. The proportion of agriculture loans in BPRs was higher (10 percent) compared to commercial banks. In contrast, the share of manufacturing loans in BPRs was lower (11 percent) than the combined average for both commercial banks and BPRs.

It appears that internal directives discourage loan officers to consider manufacturing and agriculture for lending. Specifically, 75 percent of the loan officers were directed by their supervisors to find clients involved in trading. Besides internal policies and higher risk perception of manufacturing, limited understanding or familiarity of production sectors is also a factor. Only 11 per cent of the loan officers admitted that they had a good grasp of manufacturing enterprises.

A key conclusion one can draw from the survey is that while banks are interested in increasing credit for production activities, this does not necessarily include manufacturing. Banks prefer lending to enterprises (production), but for trade and services. Limited knowledge of loan officers and credit analysts to objectively assess risks of businesses in manufacturing is one of the main challenges for banks.

Furthermore, even if some banks are prioritizing credit for manufacturing, it is not reflected in their internal policies and procedures. A large proportion of staff interviewed recognize the economic benefit of lending to manufacturing. However, lack of familiarity of the production cycles in manufacturing and limited capacity of loan officers appear to be one of the major constraints.

In light of the survey findings, the report offers the following recommendations directed at policy-makers and financial service providers:

Public credit schemes such as KUR can incentivize bank lending for sectors of the economy which the government considers strategic. The long-term aim, however, for such schemes should be to stimulate demand and enable banks to internalize KUR type loan products such as KUR *Khsus* or KUR Special which, among others, aims to increase lending for manufacturing.

In this regard, a real test is to see whether banks are able to increase the share of credit for production sectors outside the KUR portfolio. It is, therefore, recommended that besides targets for small enterprise lending, indicative targets and incentives could be offered to banks to expand their core lending portfolio for manufacturing.

There is a need to increase awareness of banks on market opportunities that go beyond the customary client-base that banks are currently serving. Expanding the share of lending for manufacturing may be one such opportunity. With greater competition for consumer credit and trade, banks need to look into other market segments such as credit for manufacturing enterprises and businesses owned by women.

Undoubtedly, there is more credit risk associated with manufacturing, but as discussed, internal capacities and limited use of market intelligence are inflating risk perception. The result is what can be termed as “convenience” lending. While there is still adequate demand for consumption loans and trade, banks may not change their lending strategy.



However, competition in the financial industry especially with the entry of fintech firms will necessitate a change. The report recommends smaller banks such as BPRs to invest more in market research including data analytics, and capacity development of staff. The latter should target loan officers and credit analysts who are responsible for finding new borrowers.

Banks could consider increasing the number of female loan officers. Loan officers play a vital role in the identification of clients and first assessment of the applicants. At minimum, more mixed staff can bring different perspectives and, arguably, increase interaction with potential female borrowers and thereby increased lending for female-owned businesses.

Invariably addressing supply-side constraints will not suffice. On the demand-side, more support is needed for business, especially for small businesses to demonstrate their credit-worthiness. With the growth of market platforms, small businesses are now able to market their products and services. Transactions and data generated through these platforms can help both in the formalization of businesses and allow banks to increase lending for small businesses.

Banks can consider providing embedded business advisory services to manufacturing enterprises. That way banks can create a niche for themselves and attract new customers. Embedded business services to future clients who are considered higher risk can ameliorate these risks and help banks to better understand manufacturing enterprises. Research has shown that some forms of enterprise development services are valued by clients.

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1

Introduction

BANKS play an important role in financial intermediation and economic development. A key function of banks is to mobilize capital from those who have surplus cash and want to save it in a secure place, while earning a steady income from the savings. Banks can lend these funds to individuals and firms to meet their financial needs for consumption or investment. In developing countries, where capital market is relatively less developed, banks are usually the main source of formal financing for enterprises.

Enterprises are engines that fuel growth and job creation in an economy. Among them small and medium enterprises (SMEs) play a vital role. SMEs are a major source of employment in both developed and developing countries. In Indonesia, micro, small businesses, and medium sized enterprises account for 99 percent of all the firms, 60 per cent of the GDP, and over 97 per cent of jobs.¹

Asymmetric information between banks and prospective borrowers can lead to adverse selection and moral hazard. Usually SMEs are not able to provide standard financial reports such as income statements, balance sheets, cash flows etc., which banks need to assess credit worthiness. SMEs are also not able to offer collateral in the form of fixed assets such as land and building which is a key requirement of banks for lending.

Many SMEs consider the loan application procedures to be too complex. A relatively small number of SMEs in Indonesia borrow from banks. Many of them use their own savings, borrow from informal sources or from friends and family for business investment and working capital. Less than 30 per cent of small businesses use bank credit for working capital compared to more than 65 per cent of large businesses.²

1 http://www.depkop.go.id/uploads/laporan/1549946778_UMKM%202016-2017%20rev.pdf

2 World Bank, Enterprise Survey 2015. <http://www.enterprisesurveys.org/data/exploreeconomies/2015/indonesia#finance-sector>

There are several banks in Indonesia targeting small businesses. Rural banks or *Bank Perkreditan Rakyat* (BPRs) consider SMEs as their core customer base. Several commercial banks are also downstreaming credit to small enterprises. Additionally, state-owned provincial development banks (BPDs) that have a dual mandate to pursue commercial profitability and contribute towards local economic development are also targeting SMEs.

Regulations are also in place to encourage more lending for SMEs. Commercial banks are obligated to allocate 20 percent of the total lending for SMEs and expected to gradually reach this target by 2019. According to the latest figures from the Financial Services Authority or *Otoritas Jasa Keuangan* (OJK), the proportion of credit to SMEs had reached 19 per cent.³ In the past, the figure hovered near 16 percent.

To ensure lending risks are adequately managed, banks carefully select borrowers who are credit worthy. Identification and appraisal of new loans is an important part of this process. Subsequently, banks must track their loan portfolio including non-performing loans (NPL), which are loans that are not being repaid on time or the borrower has defaulted.

A common risk mitigation feature of banks is to adhere to what is known in the industry as the “5Cs”: Character, Capacity, Capital, Condition of Economy, and Collateral. In appraising loans, banks use these criteria to determine the potential credit risks. If the risk profile of the applicant is considered too high, his/her loan application is rejected.

While not explicitly part of the 5Cs, banks also consider lending exposure to different economic sectors. The size of the business and sector in which the enterprise is engaged are factors that banks consider. Preference is to lend to larger businesses with adequate fixed assets. Besides size, a large proportion of enterprise loans are given for trade and services.

From a public policy point of view, adequate lending for production sectors such as agriculture and manufacturing is desirable. Manufacturing in particular tends to have a greater multiplier effect in the form of jobs and economic development. Historically, the growth of manufacturing with concurrent productivity gains in agriculture laid the platform for future industrialization. The ensuing structural transformation of the economy resulted in better jobs and improved welfare.

In recent years with automation and digitalization, services have grown and are increasingly being embedded in manufacturing. In future, this shift may create an “alternative pathway” for economic development through a service-led industrialization. However, with high proportion of low-skilled workers, it is difficult for developing and underdeveloped countries to jump straight to high-end services.

As a response to rapid growth of new technologies in the production and distribution processes, as well the changing consumption patterns, the Government of Indonesia launched the “Making Indonesia 4.0” strategy.⁴ The strategy aims to build five manufacturing sub-sectors with more technological content and mainstreaming digitalization in the production process. The strategy recognizes that Indonesia’s comparative advantage in these sub-sectors. The strategy, therefore, calls for harnessing technology to increase productivity, to revive, and to further increase the market share of manufacturing in the Indonesian economy.

3 OJK, October 2018. <https://www.ojk.go.id/id/kanal/perbankan/data-dan-statistik/statistik-perbankan-indonesia/Pages/Statistik-Perbankan-Indonesia--Oktober-2018.aspx>

4 <http://www.kemenperin.go.id/download/18384>



Against the above backdrop of SMEs, bank financing, and renewed interest in manufacturing, a bank survey was conducted in West Java. The purpose of the survey was to understand internal policies, procedures, and capacities of banks to serve enterprises across a diverse range of sectors. In particular, the survey tried to identify opportunities and constraints faced by banks to increase credit allocation for the manufacturing sector.

1.1 State of the economy and case for manufacturing

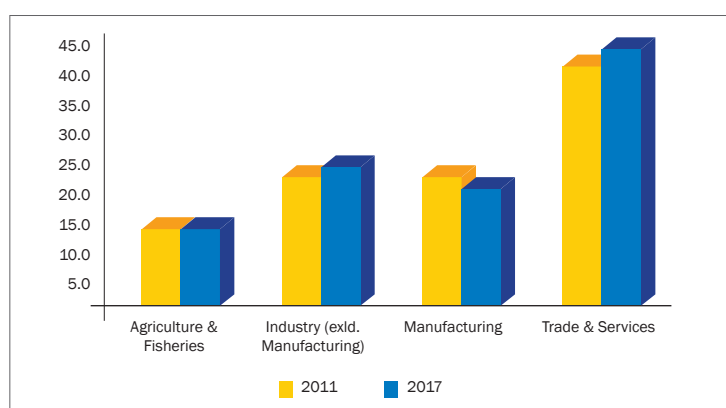
During the last decade, (2008-2018) the Indonesian economy grew steadily averaging between five and six per cent growth annually. The economy experienced rapid growth between 2010 and 2013 owing to high demand for commodities, which constituted a major part of the Indonesian exports. In the last five years, growth has been somewhat subdued with household consumption as the main driver.

The nature of economic growth and contribution of different sectors in the Indonesian economy changed following the Asian Financial Crisis (AFC). In particular, manufacturing, which averaged 9.8 per cent growth annually between 1990 and 1997, dropped to 4.4 per cent between 2006 and 2016.⁵

Between 2011 and 2017 (Figure 1), the greatest increase was in share of trade & services, followed by industry (excluding manufacturing), as the share of manufacturing declined.⁶ The declining share of agriculture is consistent with economic theory and expected to decrease due to industrialization and diversification of the economy. Among the services, transportation, finance, education, and health services have seen a higher increase.

During the last decade, the growth of the manufacturing sector has consistently lagged behind the overall growth of the economy. Household spending and services are key drivers of the current growth. Slow growth of manufacturing in Indonesia is a result of several domestic challenges and global trends.

Figure 1 Value added (% GDP)



Source: World Bank Database, accessed February 2019

⁵ ILO 2017: Indonesia Jobs Outlook

⁶ Manufacturing is part of a broad industry sector



Several studies have underlined the continued importance of manufacturing for Indonesia's future development.⁷ These studies recommend a range of regulatory reform, improving business environment, and investments to put the manufacturing sector back on a higher growth path.

It may be fair to conclude that the manufacturing sector has never fully recovered from the monetary crisis of 1998. In the region, Indonesia now faces greater competition in labour-intensive manufacturing. High growth episodes have often resulted from greater global demand for commodities rather than from export growth in manufacturing. Domestic household consumer demand has somewhat offset weak export growth. And, the demand for manufactured goods is increasingly being met through imports.

Many business and investor surveys indicate that regulatory uncertainty, burdensome bureau-cracy, and high logistics cost make Indonesia less competitive compared to its regional peers. Public funding for infrastructure has been significantly increased to build and improve roads, airports, and ports in the country. However, it is too early to see the full impact of these improvements as several infrastructure projects are currently in the implementation phase.

A series of business and regulatory reforms were enacted to attract investments.⁸ Among the reforms and schemes that directly target small businesses, income tax rate for small enterprises was reduced to 0.5 percent from 1 percent of the total revenue. To improve access to finance, Kredit Usaha Rakyat (KUR), a loan guarantee scheme with interest rate subsidy is being implemented.

⁷ Among others, see Tadjoeddin et al, World Bank 2012: Picking up the Pace: Reviving Growth in Indonesia's Manufacturing Sector; International Labour Organization 2017: Indonesia Jobs Outlook 2016; Asian Development Bank 2019: Policies to Support the Development of Indonesia's Manufacturing Sector during 2020–2024: A Joint ADB–BAPPENAS Report.

⁸ Starting from 2015, a total of 16 economic reforms (*paket kebijakan ekonomi*) were issued.

KUR aims to minimize risks for participating banks and incentivize them to lend to small businesses. One of the dedicated financing windows under KUR (*KUR Khsus*) is for manufacturing, agriculture including plantations, and migrant workers. Although some progress was made, only 8 percent of KUR loans were allocated for manufacturing. A majority of loans financed businesses in trade (50 percent) and services (16 percent).⁹

There is consensus that without reviving manufacturing, Indonesia will find it much harder to transform its economy and increase productivity. Regulatory reform and infrastructure development are key challenges. Moreover, incentives and support services such as training and credit for manufacturing businesses, especially for small enterprises are important measures.

While figures clearly show that credit for manufacturing is low, it does not mean that credit alone is a binding constraint affecting the growth of manufacturers. The purpose of the survey was not to establish to the extent manufacturing enterprises are constrained by limited credit (demand). The survey was designed from the perspective of the banks (supply). The questions the survey aimed to address were:

1. How are banks allocating credit for different sectors?
2. Why is credit for manufacturing low?
3. What can be done to support banks to increase loans for the manufacturing sector?

1.2 Type of lending and sectors

The state of the economy is an important consideration for banks in setting targets and annual credit growth. Economic uncertainty can have a negative effect on bank financing. In addition to the amount of credit, economic uncertainty can prompt banks to charge higher interest rates and reduce credit exposure to some sectors which are generally considered riskier than others.

If the outlook of the economy is positive, banks can pursue a more expansionary loan strategy. The growth and prospects of individual sectors or sub-sectors within the economy is also factored by the banks. With higher growth in some sectors, one can presume it can lead to an increase in credit to meet the demand for investment.

Conversely, besides “pull” factors that prompt banks to respond to the demand, some sectors can experience low growth owing to credit constraints. These may be supply side constraints attributed to a range of factors. While a diversified portfolio reduces risks, some banks may prefer to concentrate financing in one or two sectors to create a niche for themselves. It may also be a part of a learning strategy before gradually diversifying. Furthermore, internal bank policies and capacity can influence credit allocation of banks for different sectors. The present survey was designed to analyze some of these supply side factors.

Broadly, bank credit is categorized into consumer and production credit. There are several types of consumer loans such as housing, vehicles, credit cards, and other multipurpose loans.

9 Dewan Nasional Keuangan Inklusif, Bulletin Edisi XXII, October 2019

Meanwhile, production credit finances business entities through working capital and investment. Production loans can be allocated for different sectors of the economy such as trade, industry, agriculture, and services. Almost 28 percent of bank credit in 2018 was for consumption while the rest was for production purposes including working capital (47 percent) and investment (25 percent).¹⁰

Both consumer and production credit have different risk characteristics. Generally, production credit is considered riskier than consumer credit. In 2018, the non-performing loan (NPL) rate of working capital and investment credit was 2.8 percent and 2.4 percent respectively. In contrast, the NPL rate for consumption was only 1.5 percent.¹¹

The repayment of production credit is subject to business cycles, which is not only dependent on internal performance of the business entity, but the prevailing economic environment also plays a critical role. In general, businesses may find repaying loans more difficult during an economic downturn, thus resulting in higher NPL for the banks.

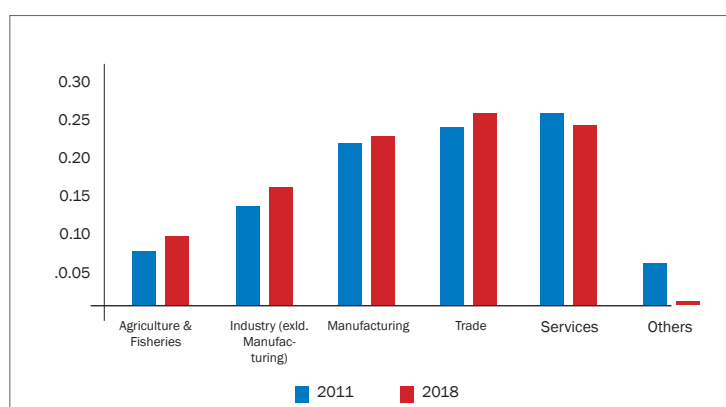
Consumer credit carries lower risk as such loans are usually given to those with regular income and jobs. This is not to say that a downturn does not affect the job market. Jobs can be lost when the economy is going through a recession, but permanent jobs are less sensitive to short-term business cycles.

Moreover, jobs in the public sector are less likely to be affected by economic conditions. Besides fixed income streams, banks can easily seize and sell the asset under consumption loans in the case of a default. As such, banks consider consumption loans to public employees as low-risk and one of their preferred customer groups.

Within production credit, the risk profile differs across economic sectors. Generally, agriculture and livestock loans are considered the riskiest, followed by manufacturing. Trade and services are considered the least risky of the enterprise loans.

Figure 2 shows that the trade sector received the majority of bank credit in 2018. While the service sector has grown faster, the share of credit allocation for services has in fact declined from 26 percent in 2011 to 25 percent in 2018. The share of agriculture credit has seen the

Figure 2. Enterprise Loans by Economic Sectors



Source: Authors calculations based on OJK data, October 2018

¹⁰ Authors calculations based on OJK data SPI February 2019

¹¹ idem

largest increase of three percentage points. The expansion of credit for agriculture may be the result of growth, at least between 2011 and 2013, in the plantation sector.

However, the fastest credit growth among various sub-sectors was in construction, which averaged over 22 percent in this period. At 21 percent, slightly behind construction, individual services provided to the households have also shown rapid growth. Credit growth in trade and manufacturing registered a more modest growth, almost consistent with the overall average growth (13.1 percent) in enterprises loans.

Considering the perceived risks, banks tend to channel more funds to low-risk sectors such as services and trade. While each sector plays an important role in the economy, an expanding manufacturing sector is important for industrialization. Manufacturing in particular has good multiplier effects, providing a boost to other sectors of the economy and ultimately in more jobs.

As discussed, before the Asian Financial Crisis of 1997, manufacturing growth was very high, which, in turn, helped the country to grow at almost seven percent per year between 1990 and 1997. During this period, jobs were added in the manufacturing sector, which were more productive than jobs in agriculture. The pace of job creation in manufacturing has fallen over the years.¹²

Therefore, one can conclude from a public policy point of view, local production and the jobs that it supports is of critical importance. Through various policies and programmes, the government is trying to revive manufacturing growth. Making Indonesia 4.0 is one of the flagship strategies of the current government to support manufacturing. Efforts are being made to improve investment climate, address infrastructure deficits, and access to finance for small businesses.

With regard to financing for production sectors, the challenge is to find a convergence of private and public interest in a way that is beneficial to all. The financial landscape in the country is changing, especially with the entry of financial technology (fintech) firms. The rapid advances in technology is making it possible for financial institutions to reach underserved population while keeping the cost low.

1.3 Survey Objectives & Methodology

Internal policies and business plans of banks primarily determine the growth and credit exposure across sectors. The policies are usually informed by market condition and research. Perception, however, also plays a key part in exposure to certain sectors. Generally, banks consider credit for manufacturing and agriculture riskier compared to trade and services.

Furthermore, policies and business practices are shaped by institutional capacity including the skills of the staff responsible for marketing and loan appraisals. The knowledge of bank staff about the heterogeneous nature of enterprises and familiarity of economic sectors can be a factor as well that influences the structure of the loan portfolio.

12 ILO 2017: Indonesia Jobs Outlook



The survey aimed to better understand internal policies and capacities in banks and the extent to which these factors contribute to loan allocations. The research hypothesis was that limited capacity of staff, combined with an overly exaggerated risk perception, was constraining banks to increase lending for manufacturing.

West Java was chosen as the target location for the survey owing to its large manufacturing base. It is one of the most industrially developed regions and is in fact considered one of the main manufacturing hubs of Indonesia. Also, there are a number of commercial and rural banks, as well as a large number of SMEs in the province.

A total of 190 respondents from 58 banks participated in the survey. The sample of banks was drawn randomly and included commercial, state-owned, and rural banks or *Bank Perkreditan Rakyat* (BPRs). With 277 BPRs in West Java, the majority of respondents were staff from the BPRs. By design, staff interviewed were loan officers and credit analysts.

Loan officers and credit analysts play a crucial function in finding clients and reviewing loan applications. The purpose of the study was to understand the business processes and practices related to marketing and loan approvals. Some of the questions in the survey were related to policies and directives, but at an operational level.

The sample of BPRs and commercial banks represents West Java and the findings cannot be extrapolated at the national level. It is also important to note that the results from the survey do not represent the BPRs and commercial banks nationally. While the findings represent only West Java, they can be indicative of provinces with a sizable manufacturing sector and a sufficient number of financial institutions.

The reader should note the following regarding the data, definition, and the methodology: in many BPRs, the loan officer's and credit analyst's roles tend to overlap i.e. the same person may carry out both the functions. During the interview, respondents who had this dual function were asked about their primary and secondary function. The respondents were then divided according to their primary function.

A survey questionnaire was developed in consultation with key stakeholders at the national and the provincial level. A team of enumerators was contracted to conduct the interviews. Selected enumerators received classroom training and participated in mock-up interviews with each other.

Following that, enumerators conducted several pilot interviews to test the questionnaire which was subsequently modified. All the interviews were conducted face-to-face at the office of the respondent. Enumerators used tablets to record the responses and uploaded them directly to an online database.

The statistics presented in this report are not weighed. All the figures have been rounded up or down for the convenience of reading. In cases where the first digit following the decimal was five or above, the figure was rounded up; if the first digit following the decimal was less than five it was rounded down.



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Survey Findings

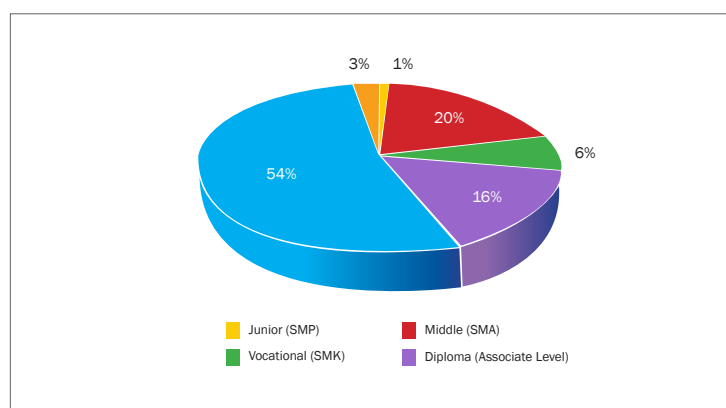
CLOSE to 86 percent of the respondents interviewed were male. The proportion of female loan officers was considerably lower (15 percent) than credit analysts (23 percent). In commercial banks the proportion of female loan officers was higher (22 percent) compared to BPRs (11 percent).

As the data show, loan officer positions in BPRs appear to be male-dominated. As far as experience is concerned, male loan officers had more total years of experience (5.5 yrs.) compared to the female loan officers (2.3 yrs.). The average age of the respondents was 35. The cohort of female respondents was younger. The average age of female respondents was close to 30.

A majority (72 percent) of loan officers and credit analysts had a tertiary level degree i.e. diploma or above (Figure 3). However, this rate is lower (63 percent) among BPRs. Women had similar educational qualifications as their male counterparts. For example, the proportion of loan officers with bachelor's degrees was almost identical between men and women.

Overall, the loan officers and credit analysts working for commercial banks in the provinces had a higher level of education. In fact, all have at least a *Diploma* (Associate Level Qualification), with almost 92 percent having either a bachelor's or a master's degree. Among BPRs, more than 37 percent of loan officers and credit analysts had a middle-school qualification (SMA) or lower.

Figure 3. Educational Background (Loan officers & Credit



More than half of the respondents possessed a bachelor's degree (S1). Among credit analysts, the proportion of bachelor's (S1) degree holders was higher (60 percent) compared to loan officers. Interestingly, few loan officers (3 percent) had a master's degree (S2) while no credit analysts had a post-graduate degree. Although a credit analyst is a more specialized position in a bank compared to a loan officer position, one would have expected to see more credit analysts with a post-graduate degree.

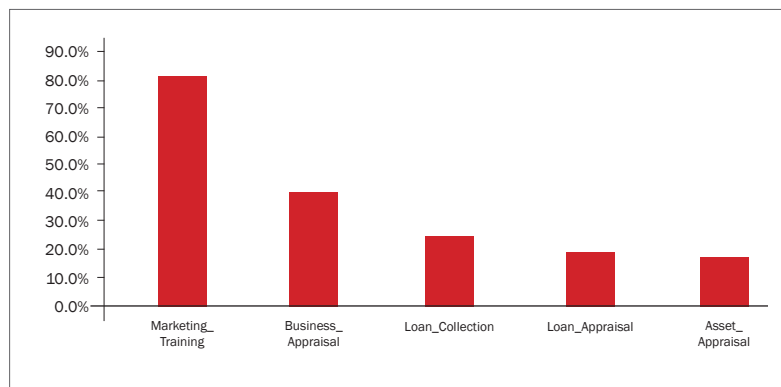
On average, loan officers and credit analysts had been in their current position for more than five years. The median years of experience in the current position was four years. The median years of experience of credit analysts was slightly higher, at 4.5 years. The total average years of experience of the respondents as loan officers and credit analysts was 5.4 years, suggesting that most of their experience in that position was acquired with their current employer.

Close to 22 percent of the respondents had never participated in a training related to their function in the banks. Approximately 38 percent participated in only one training. Overall, the frequency of training was relatively low, averaging just 1.2 times for the entire period they have been working with the current employer. As expected, the number of training for loan officers and credit analysts tend to increase the longer they have been with the institution.

Approximately 55 percent of those who have been with the institution for five years or more were trained two to five times in that period. Meanwhile, only 25 percent of those who had worked between one and three years received training more than twice. The number of training received by the respondents between commercial banks and BPRs was almost equal.

Besides the frequency of training, loan officers in particular were asked to list the type of training they had received. The main type of training provided to them was related to marketing loans (Figure 4). Only 41 percent of the loan officers had participated in business appraisal training.

Figure 4. Type of training attended by loan officers



2.1 Loan targets

The average number of clients that loan officers in BPRs managed to reach in a six-month period prior to the interview was 35. The average target they had set for themselves in this period was 56. For loan officers in commercial banks, the average target was much lower (20) and the actual number of new clients that they were able to find was only nine in six months.

As we will see in the section below, while the average clients reached in commercial banks is lower, the volume of lending per client is much higher. Based on the survey results, one can see that loan officers in both BPRs and commercial banks tend to be more ambitious. While loan officers in BPRs were able to reach 70 percent of their target, loan officers in commercial banks were able to achieve less than half (45 percent) of their planned target.

Although the target achieved was significantly lower than planned, 20 percent of the BPR loan officers claimed that they had exceeded their target and managed to secure more than 60 new clients. Nearly four percent managed to secure more than 100 clients during this period, with one outlier who claimed to have found 300 new clients in six months.

The association between years of experience and number of new clients that a loan officer is able to find in a six-month period yielded somewhat mixed results. Those with an average experience of 4-5 years were able to find more than 51 clients compared to the loan officers with 1-3 years (32 clients). Loan officers who had worked for 7-14 years were marginally better (33 clients) than those with less experience (1-3 years). The average for the loan officers with more than 15 years of experience was much higher (79 clients).

Approximately 58 percent of loan officers stated that their supervisors periodically assigned targets for acquiring new clients. The remaining respondents reported setting their targets themselves, but usually in consultation with their supervisors. The survey also revealed that nearly 75 percent of loan officers received financial incentives for reaching their loan targets.

In monetary terms, loan officers, on average, targeted to reach IDR 1.9 billion in new loans for the six-month period. The median target was IDR 1 billion. As expected, the average per client monetary target of loan officers working for commercial banks is much higher (IDR 99 million) compared to loan officers in BPRs (IDR 42 million).

Close to 72 percent of the loan officers preferred loans for production or enterprise loans; 23 percent preferred consumption loans, while the remaining (6 percent) did not have any preference for either of the two. Among those who prefer production loans, 42 percent consider these types of loans to be less risky. A significant number (37 percent) also consider production loans positively impacting the economy.

In contrast, only 10 percent of loan officers who prefer consumption loans consider them less risky. The main reason for their preference of consumption loans is the ease of finding new clients. Close to 90 percent of loan officers who prefer consumption loans cited ease of finding borrowers as the reason for their preference.

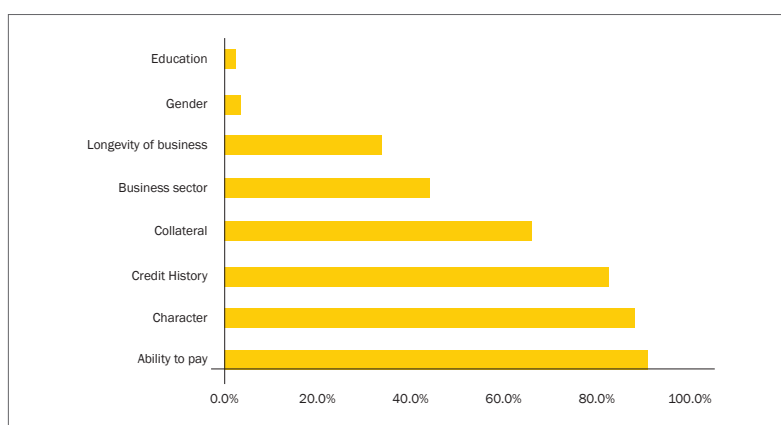
The spread of credit portfolio of the loan officers shows a clear bias towards trade. Among commercial banks, the proportion of loans allocated to trade is close to 60 percent. The share of loans for services and manufacturing is 17 percent and 15 percent respectively. Less than 3 percent of the total loans are for the agriculture sector.

BPR loan officers claimed to have a higher proportion of agriculture loans (10 percent). Credit to trade and services amounted to 43 percent and 18 percent respectively. The allocation for manufacturing (11 percent) was smaller than the commercial banks.

Supervisors of the loan officers normally decide which economic sectors to target. Fifty seven percent of the loan officers stated that it was their managers who gave them instructions on preferred economic sectors. The remaining respondents either decided themselves or consulted with their supervisors on sector spread of loans.

The three main considerations of loan officers when selecting clients are the ability of borrower to repay the loan, character, and credit history (Figure 5).¹³ Collateral was also highly rated by over 62 percent of the loan officers, but it is considerably lower than the first three criteria. Education level and gender of potential clients do not seem to influence loan officers much when considering new clients.

Figure 5. Criteria for checking credit worthiness



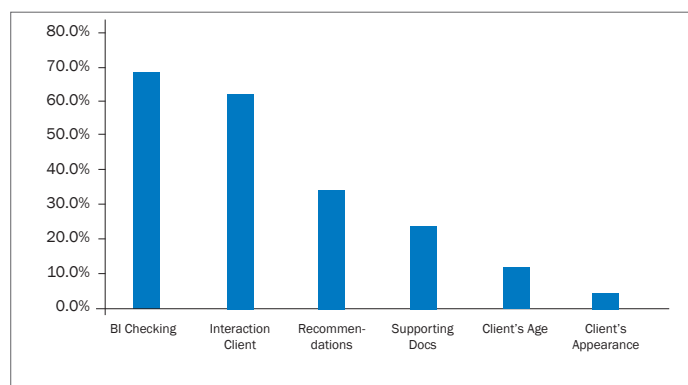
To assess the character of potential customers, nearly 70 percent of the loan officers use Bank Indonesia (BI) Checking or credit registry (Figure 6). Interaction with potential clients is also important for loan officers to determine credit worthiness.

¹³ Credit registry which has been renamed as SLIK is now maintained by OJK

Approximately 63 percent of loan officers rely on interaction with the potential clients. It was not possible in the survey to further probe the nature of this interaction. One can assume that interaction includes interviews or conversations that enables loan officers to develop a borrower profile.

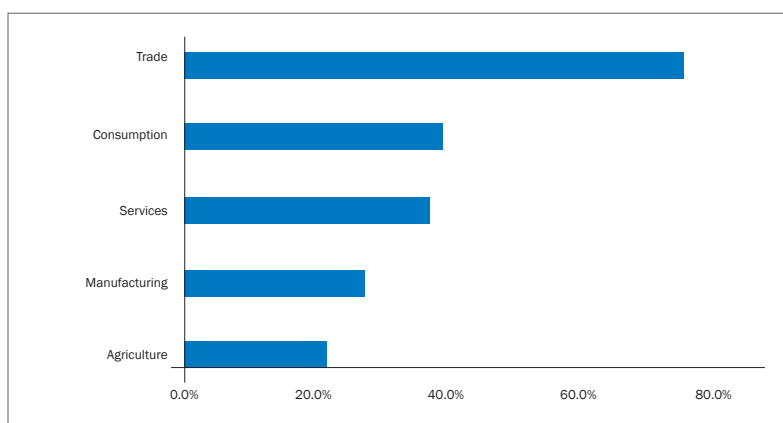
Recommendations from others and supporting documents that potential clients provide are also considered, but by a smaller proportion of loan officers: 35 percent and 25 percent for recommendations from others and supporting documents respectively.

Figure 6. Assessing one of the 5 Cs (Character)



To engage new clients in different sectors, more than 90 percent of loan officers received recommendations from their supervisors. As shown in Figure 7, loan officers are recommended to find clients mainly in trade (75 percent), followed by retail consumption (38 percent), and services (37 percent). Only 27 percent and 21 percent of loan officers receive recommendations to seek potential clients in the manufacturing and agriculture sector respectively.

Figure 7. Priority sector for lending



When reviewing loan applications, approximately 70 percent of loan officers claimed that they considered the economic sector in which the client was engaged. However, in relative terms, i.e. in conjunction with other factors, economic sector is considered as the key criteria by only 42 percent.

As mentioned before, the preferred sector is trade for enterprise loans. The preference for trade, retail consumption, and services can be attributed to the risk perception of the loan officers. When asked to rate credit risks (Table 1) across different sectors, agriculture (67 percent) and manufacturing (35 percent) were considered high risk. The percentage of loan officers who consider retail consumption, and trade & services as high risk was only 19 percent and 18 percent respectively.

Table 1. Perceived risks by sectors

Sectors	High	Moderate	Low
Retail Consumption	19%	61%	19%
Manufacturing	35%	60%	5%
Agriculture	67%	28%	5%
Trade & Services	18%	67%	15%

2.2 Finding Clients

In order to find borrowers, loan officers (66 percent) usually rely on recommendations from existing clients. A little over one third (35 percent) of loan officers consult business directories to find new clients. Very few (6 percent) use the internet to search for clients. The finding is interesting in light of the increase use of online e-commerce platforms and fintech companies in Indonesia.

It is estimated that around eight million small businesses are selling their products through online platforms.¹⁴ In the coming years the figure is likely to grow. According to the latest OJK report, there are 127 licensed fintech companies in Indonesia. Fintech companies primarily use data analytics to identify and market services. More than 14.3 million people of whom 71 percent are below 34 years old are borrowing from fintech companies.¹⁵

There are some differences between loans officers in BPRs and commercial banks. While getting recommendations from existing clients is one of the primary methods for finding new clients, loan officers in commercial banks rely more on personal networks (84 percent) compared to loan officers in BPRs (28 percent). Also, more loan officers in commercial banks use business directories (79 percent) compared to BPR loan officers (15 percent).

Based on the average size of the loans, one can conclude that a large proportion of BPR clients are micro and small businesses. Typically, these types of enterprises are not listed in the business directories. As such, BPRs use more traditional methods of marketing. This includes word of mouth and referrals from existing clients.

With the growth of e-commerce and digital marketing platforms in Indonesia, which, as mentioned, many micro and small businesses are already using, BPRs are at a disadvantage.

¹⁴ <https://www.cnbcindonesia.com/tech/20190701123829-37-81831/baru-14-dari-58-juta-umkm-ri-yang-masuk-e-commerce-kenapa>

¹⁵ <https://www.ojk.go.id/id/kanal/iknb/data-dan-statistik/fintech/Pages/Statistik-Fintech-Lending-Periode-September-2019.aspx>

Traditionally, BPRs set up their offices and branches close to the local markets in peri-urban areas. Close proximity, personal relationship, and quick processing differentiated BPRs from large commercial banks.

As more small businesses start to go digital, BPRs are likely to lose their market share. BPRs need to either adopt technology or find other innovative ways of reaching clients to maintain their market share. Digital e-commerce platforms and fintech companies providing financial services, along with commercial banks that offer digital services can be expected to increase market share for micro and small businesses. Thus, the current regulatory framework for BPRs which limits the menu of services including use of mobile banking should be reviewed.

More than 85 percent of loan officers seek advice from someone when assessing loan applicants from different sectors of the economy. The advice is mainly sought from the managers (39 percent) or colleagues at the office (26 percent). Less than 2 percent of the loan officers consult or seek advice from relevant business associations in a sector.

As mentioned, a large portion of the loan portfolio consists of loans for trade and services. To get a better sense of how well the loan officers understand different business sectors, respondents were asked about their understanding of the manufacturing sector. As show in Table 2, only 11 percent of loan officers claimed to have a good understanding of the manufacturing sector which was in fact lower than agriculture (17 percent).

Almost 98 percent of the loan officers were of the view that training to get familiar with manufacturing would help them to improve processing loan applications. As we have seen earlier, while a majority of loan officers have attended training provided by their employers, the number of training provided is still insufficient.

In addition, the training seems to focus mainly on marketing of loans, but that alone may not equip loan officers to create a more diversified portfolio of loans. Diversification is important not only for a more inclusive financial sector, but also to minimize risks for the banks and to increase their market share.

A vast majority (89 percent) of loan officers believe that the loan application process is quite easy. It appears that bank staff have a more favorable view of loan procedures. This is contrary to the general perception that a complicated loan process tends to deter borrowing, especially among low-income households and small businesses.

Close to 80 percent of loan officers consider that the financial literacy of their clients is reasonable or good. The financial literacy rate in Indonesia is much lower than this figure suggests, but that is for the general population. It appears that those who are already borrowing are financially more literate, according to the loan officers.

2.3 Loan Appraisals

On average, a credit analyst received 134 loan applications in six months. However, it varies significantly among credit analysts. The median was 73 loan applications. Approximately 106 of these applications were approved, suggesting a high approval rate (80 percent).



On average, credit analysts had set a target of 100 loan approvals in six months. There are a few outliers which has increased the average (mean) of target loans. The median for loan target was only 48, exceeding credit analysts' targets by a large margin.

Close to half (48 percent) of the credit analysts mentioned that the target was set by their supervisors while the remaining (52 percent) set the target in consultation with their supervisors. Compared to loan officers (75 percent), only 45 percent of credit analysts were given incentives if they met their loan targets.

A lower proportion of credit analysts receiving incentives may be due to the different function that the credit analysts perform compared to the loan officers. Loan officers are expected to find new clients and thereby increase revenue and thus are more incentivized to do so. On the other hand, credit analysts are responsible for due diligence. Incentives to credit analysts can potentially lead to less than a thorough appraisal process, which, in turn, can increase risks for the banks.

As seen with the loan officers, more than half (54 percent) of credit analysts processed loans for productive purposes. In other words, these are enterprise loans, but not necessarily for production sectors such as manufacturing. The breakdown of loans by sectors show a high concentration of lending for trade (49 percent), followed by services (22 percent).

Interestingly, a higher percentage (14 percent) of agriculture loans were approved by credit analysts, while manufacturing loans amounted to only 11 percent of the portfolio. In the case of loan officers, the proportion of manufacturing loans was higher than the agriculture loans.

In the last six months, more than 54 percent of loans approved by credit analysts were for existing bank clients or repeat borrowers. Although slightly higher for existing bank clients, there is no indication that clients with previous relationship with the banks are preferred.

The loan applications from existing clients showed a somewhat similar sector spread as applications from new clients. Approximately 42 percent of loan applications were for trade, followed by 22 percent for services. A slightly lower proportion of loan applications (10 percent) were received for manufacturing and agriculture (13 percent) from repeat borrowers compared to new clients.

A large proportion of credit analysts are instructed by their supervisors on portfolio spread across sectors. Around 67 percent of credit analysts reported regularly receiving instructions, while another 17 percent sometimes received instructions from their supervisors. Overall, management had established a 60:40 ratio for production and consumption loans. The preference of management was to have a higher share of production or enterprise loans in the portfolio.

However, for production loans the preference is mainly to finance enterprises engaged in trade. Sixty-six percent of credit analysts stated that the trade sector was recommended by their supervisors for financing. Services was a distant second in the list with 17 percent of credit analysts being recommended to target this sector. The least desirable sector recommended for credit was agriculture. Only nine percent of credit analysts were recommended to target agriculture by their supervisors.

The key attributes and criteria used by credit analysts to rank importance show that character, credit history, and ability to pay rank at the top of the list (Table 2). The rankings are somewhat

similar to the loan officers with one difference. Ability to pay was considered as very important by a larger proportion (86 percent) of loan officers as compared to the credit analysts (76 percent).

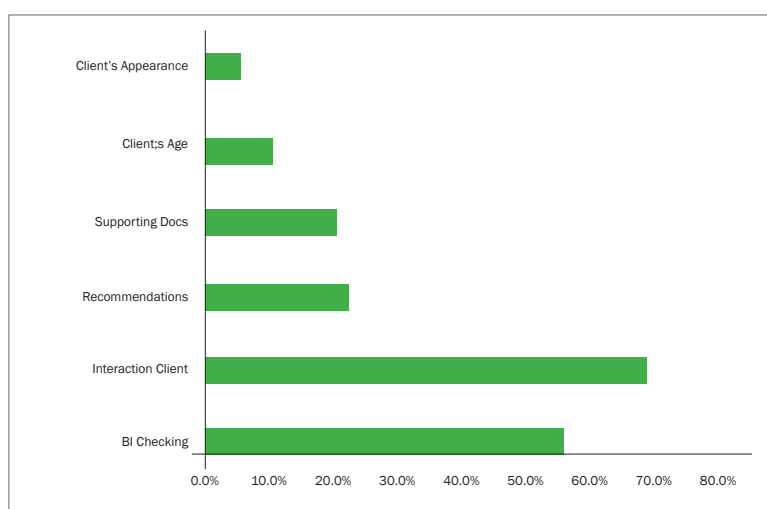
Moreover, credit analysts consider gender (10 percent) and education (7 percent) higher than loan officers, as criteria when appraising loan applications. Only four percent and three percent of loan officers consider gender and education respectively as criteria when assessing potential borrowers.

Table 2. Key criteria when appraising loan applications

Attribute	High (%)	Moderate (%)	Low (%)
Character	84	14	2
Credit History	79	21	0
Ability to Pay	76	22	2
Collateral	64	34	2
Business Sector	38	59	3
Longevity of Business	38	57	5
Gender	10	47	43
Education	7	55	38

To assess the character of a potential borrower (Figure 8), credit analysts consider interaction a very important indicator (71 percent), followed by credit history through BI Checking (57 percent). In contrast, a much higher share of loan officers (70 percent) consider BI Checking important. A lower proportion (22 percent) of credit analyst consider interaction with clients to assess character important as compared to the loan officers (35 percent).

Figure 8. Assessing one of the Cs (Character), credit analysts





Nearly 66 percent of credit analysts interviewed considered the character of the business owner as the main criteria to determine the risk potential. Additionally, the payment cycle of businesses was also considered by more than a quarter (26 percent) of credit analysts as a risk factor. Very few credit analysts thought demand for products (5 percent) and business management (3 percent) of clients posed any risks.

Eighty percent claimed that they had a general understanding of the businesses of their clients while only 21 percent of credit analysts claimed that they fully understand the businesses of their clients. This would suggest that years of experience of the loan officers and credit analysts, both total and with the present employer and current position, does not seem to be strongly associated with their level of understanding of their clients' businesses or sectors in which they are working.





3

Conclusions

A SURVEY of commercial and rural banks was undertaken in West Java to better understand the reasons behind the relatively low volume of lending for production sectors such as manufacturing. The study aimed to shed light on risk perceptions, business processes, and capacity constraints that are affecting credit flows to manufacturing enterprises.

While banks provide training to a majority of loan officers and credit analysts, 22 percent of the respondents claimed to never have received training. Furthermore, the frequency of training was low and focused on specific job functions. Thus, such training may not help loan officers broaden their understanding of enterprises and economic sectors in which businesses operate. As such, it is challenging to seek diversification and target underserved segments of the population. The respondents were unanimous in their view that they need more training in the future.

Among the banks, there was stated preference for enterprise loans. Respondents from the commercial banks claimed that they allocate 80 percent of their loans for enterprises. BPRs have a more modest spread with slightly over 55 per cent of the loans disbursed to enterprises.

Risk perception of agriculture loans is quite high (67 percent). Low-income farmers with small landholdings face numerous challenges and uncertainties including weather, crop failure, and post-harvest losses. Moreover, the price of agriculture commodities tends to fluctuate depending on local production and imports.

Compared to agriculture, manufacturing loans entail fewer risks. However, unlike trade, manufacturing is more complex as it involves a full cycle of development from raw materials to finished products. Trading goods and services takes the production cycle out of the financial assessment.



The risks that underpin production processes in manufacturing sector are more complex for bank staff to analyze. Not many loan officers have the ability to carry out a proper risk analysis in manufacturing. There is limited opportunity for professional development that would increase the capacity of loan officers. Training is infrequent and focuses on specific routine functions of the loan officer.

The perception of risk and convenience of lending for consumption and trade is, thus, manifested in the loan portfolios of BPRs and commercial banks. According to the survey respondents, almost half of the loans are allocated to trade followed by services (17 percent). The allocation of credit for the trade sector is even higher (60 percent) among commercial banks.

As several studies show, Indonesia is losing its manufacturing footprint. Access to finance may not be the binding constraint of manufacturers in the country. However, easing access to finance for enterprises in manufacturing can be an incentive. The challenge is to find the right balance that ensures banks can tap into this source of business without taking too many risks.

The survey shows that loan officers who are at the front end of looking for new streams of revenue and loan growth rely on more traditional methods of marketing. Recommendations from existing clients and word of mouth were the primary (66 percent) measures for finding new clients. Mainly through referrals the loan officers are able to build their portfolio. It appears that very little is done to analyze local economy, business cycles, and data of businesses from online platforms.

A traditional marketing approach may have worked well in the past, but with greater competition from fintech, banks, especially BPRs, will increasingly feel the pressure. Using algorithms and data analytics, fintech companies can quickly reach a large population. Online loan applications and quick approval can be an attractive proposition for would be clients. The advantage BPRs have now is the close physical proximity to their clientele, but that may be eroded with the expansion of fintech.

To tap into new segments of the population and revenue streams, banks need to look beyond the sectors and loan products that have in the past been their main source of income. As the survey clearly shows, trade and consumption are the preferred sectors. However, many banks are now competing for the same clients.

There is a danger that in the future either the slice of the market share will get smaller or it could lead to over indebtedness of clients through aggressive marketing. There are already some signs that it is happening. A recent study showed that clients were borrowing from multiple sources and being heavily leveraged¹⁶.

It appears that there is limited knowledge and expertise among loan officers and credit analysts to assess sectors such as manufacturing and agriculture. There is a general understanding, but only a small number (11-17 percent) have a good grasp of business cycles in these sectors. The survey revealed that a large number of respondents consider consumption loans convenient and easier to find. However, they acknowledge the developmental role of enterprise loans, especially for production sectors of the economy.

16 PAKINDO & MicroSave Survey West Java, 2016







4

Recommendations

THE DEVELOPMENT of small enterprises and growth of production sectors are key ingredients for future job creation. Financing for small businesses and manufacturing is crucial in this regard. In general, banks respond to the market demand while ensuring that investments yield the best possible return for the shareholders.

Owing to market imperfection, adequate capital may not be flowing to the sectors that are strategic for the economy and, thereby, limiting the developmental impact of finance. As the survey shows, banks are not actively looking beyond their customary client-base and sectors such as trade, services, and household consumption.

While challenging, it is possible and indeed desirable to reconcile broader economic and social concerns of public policy and economic returns of individual agents in the market. Below are some recommendations aimed to help craft strategies, and to help banks capture latent demand not only to increase market-share but also to stimulate growth of the local industry.

1. Public institutions responsible for formulation of policies and regulations need to further incentivize financial institutions to diversify and channel credit to sectors that are strategic for national economic development and jobs.

In this regard, two key policy instruments are already in place. Banks are required to allocate 20 percent of their loan funds for SMEs. Also, through the special window of KUR, participating banks in the scheme are required to increase their allocation of loans for agriculture and manufacturing.

A general target of 20 percent credit for SMEs may not be a useful measure considering that 99 percent of enterprises in Indonesia fall into this category. Sector-specific targets that combine small enterprises and sector loans may be a more useful measure of success.

Banks channeling the *KUR Khusus* are given an incentive through partial loan guarantee and interest rate subsidy. However, it appears that KUR is not fully “internalized” by the banks. Part of the reason is that KUR is seen as externally engineered instrument. In case the loan guarantee and subsidy are removed, it is difficult to say whether banks will continue to lend to similar businesses and sectors that are currently under the KUR. In other words, it is useful to assess whether KUR is changing portfolio strategies of banks participating in the scheme.

2. There is a need to raise awareness among financial institutions of untapped markets that can be captured by reaching out to different segments of the population and economic sectors. As the survey findings show, manufacturing and agriculture constitute a much smaller portion of the loan portfolio. Banks could, therefore, increase lending for these sectors.

Amidst greater competition, expanding financial services by offering the same products and services and maintaining the same spread of loans across different sectors and consumer segments may not be the most effective strategy. Banks need some rethinking to maintain and expand market share in the future. A gradual increase of enterprise credit for production sectors could be part of this rethinking.

Furthermore, banks can consider developing strategies and business plans to reach more female-owned enterprises. Currently, very few banks interviewed have explicit programmes targeting women. As previous studies have shown,¹⁷ women-owned businesses are underserved and should be treated as a distinct customer segment. As a first step, banks could increase the proportion of female loan officers which, at minimum, will help to bring different perspectives and more interaction with potential female borrowers.

3. Banks, especially BPRs, need to do more to systematically build market intelligence. Currently, loan officers use their personal networks and relationships with existing clients. Meanwhile, it is not uncommon in larger banks and fintech companies to use data analytics and online platforms for reaching new customers.

The BPR model revolves around interaction with clients. Often loan repayments and deposits are made in person at the branch or cash point of the BPR. Existing regulations limit BPRs to use mobile applications for clients. The entry of fintech companies is creating a healthy competition. However, if BPRs are not able to adapt and offer digital banking services to clientele who are increasingly demanding it, they will be at a disadvantage.

In the future, the “revitalization” of BPRs should include improving data analytics and digital services. In this regard, there may be opportunities for BPRs to collaborate with fintech companies or larger banks that have already integrated digital services as part of their products and services.

4. Banks need to invest more in capacity development of staff who are at the front-end of marketing and loan appraisals. As the survey has shown, loan officers and credit analysts need to improve their understanding of sectors and business cycles. A combination of training, rewards, and guidance from management is needed.

In the past, the Bank of Indonesia developed training modules for lending in different sectors. These could be updated and used in conjunction with new training tools to help

17 https://www.ifc.org/wps/wcm/connect/677906e9-398d-45c1-8f87-84e503292f50/SME+Indonesia+Final_Eng.pdf?MOD=AJPERES

financial institutions train their staff. Correspondingly, prior to delivering the training there may be a need to build a cadre of trainers who can deliver these courses to the banks.

In addition to classroom training for bank staff, certified trainers can provide consultations to individual banks in the form of “clinics” with selected staff and management of the banks. These one-to-one sessions can be useful for bank staff and managers to develop a common understanding, establish more meaningful targets, and form realistic plans to reach these targets.

5. On the demand-side, much is still needed to create the necessary environment and productive capability of enterprises. Several studies on private sector development, business reforms, and SMEs have already highlighted constraints that businesses face in Indonesia. Among small businesses, access to finance is one of the constraints.

Many small businesses are not formerly registered or have all the necessary licenses. Owing to high cost, time, and cumbersome procedures, small businesses often prefer to be outside the regulatory radar. The downside of remaining informal is the lack of access to services in the market place which, in turn, affects their productivity and growth.

It is recommended that through a combination of online portals and business networks, advisory support is provided to “growth-oriented” businesses to improve their credit-worthiness. It is important to distinguish between businesses that are committed to growth and those that are not necessarily seeking expansion. The latter may include businesses that are run as a side-business by people who are wage earners. These kind of businesses may not be able to devote the time or re-invest to grow further.

Annex 1

Survey Questionnaire

(Loan Officer)

1	Name	
2	Age (years)	
3	Sex	1. Male 2. Female
4	Education	1. Elementary School 2. Junior High School 3. Secondary School (General) 4. Secondary School (Vocational) 5. Diploma 6. Bachelor's (S1) 7. Master's (S2)
5	How many years have you been in your current position?	1. Less than one year 2. _____ years
6	How many years of experience do you have working as an account officer (including current position and positions with the same bank or other banks)?	1. Less than one year 2. _____ years
7	During your current assignment, how many times have you received/attended training related to your core function?	1. None 2. (1) 3. (2-5) 4. (>5) <i>If respondent choose 1, go to question no 9</i>
8	Following up on the previous question, what kind of training did you receive? <i>Multiple answers possible</i>	1. Marketing and loan promotion 2. Accounting and finance 3. Business assessment 4. Loan appraisal 5. Loan collection 6. Others _____
9	How many new clients did you manage to reach in the last six (calendar) months?	..... .....
10	What was the target number of clients that you wanted to reach in the last six (calendar) months?	..... .....
11	In terms of monetary value, what was your target amount of loans that you had to reach in the last six (calendar) months?	..... .....
12	Do you receive any incentives when you reach your target?	1. Yes 2. No 3. Sometimes
13	These client targets are set by...	1. Your supervisor 2. Primarily by you, in consultation with your supervisor



14	On average, how many new clients do you have to target each month?	..... .....
15	From your current portfolio, can you give us a general breakdown of clients by the type of loans/borrowing?	1. Individual Consumption Loans: _____ % 2. Business Loans: _____ %
16	Following on the previous question, what was the approximate breakdown of business loans by sectors?	1. Trading/Commerce: _____ % 2. Manufacturing: _____ % 3. Services: _____ % 4. Agriculture: _____ %
17	Do you get instructions from your supervisor in which sectors new clients should be targeted?	1. Yes 2. No 3. Sometimes
18	How would you rank (in terms of importance) key criteria for selecting potential clients? <i>Rank 1 (very high), 2(average), 3 (not high)</i> <i>Multiple answers possible</i>	1. Good credit history: (1) (2) (3) 2. Business sector: (1) (2) (3) 3. Ability to repay: (1) (2) (3) 5. Adequate collateral: (1) (2) (3) 6. Number of years business is running: (1) (2) (3) 7. Educational background: (1) (2) (3) 8. Gender: (1) (2) (3) 9. Character: (1) (2) (3)
19	How are you able to assess the character of a potential client? <i>Multiple answers possible</i>	1. Age 2. Interaction with client 3. Recommendation from someone 4. Appearance of client 5. Reviewing documentation of clients 6. Bank Indonesia (BI) Checking
20	Among the sectors listed, which sectors have been recommended by your supervisor to target? <i>Multiple answers possible</i>	1. Individual Consumption 2. Trade 3. Manufacturing 4. Agriculture 5. Services 6. No Recommendations
21	Primarily, what do you do to find new clients? <i>Multiple answers possible</i>	1. Use my personal network 2. Use registry of businesses 3. Recommendations from existing clients 4. Search on internet 5. Go door-to-door
22	What type of credit exposure has management set for these types of loans?	1. Productive: _____ % 2. Consumptive: _____ %

23	Do you prefer to target new clients for productive or consumptive loans?	1. Productive Loans 2. Consumptive Loans 3. No preference <i>If selected 1, go to 19</i> <i>If selected 2, go to 20</i> <i>If selected 3, go to 21</i>
24	Why do you prefer productive loans?	1. Easy to find clients 2. Less credit risk 3. Good borrowers 4. Helps the economy
25	Why do you prefer consumptive loans?	1. Easy to find clients 2. Less credit risk 3. Good borrowers 4. Helps the economy
26	When looking for new business clients do you differentiate them by sectors?	1. Yes 2. No
27	How well do you understand the business processes of your clients?	1. Very Well 2. General Understanding 3. Don't understand
28	How would you rate sectors in terms of potential credit risks?	1. Retail Consumption: a. High Risk b. Moderate Risk c. Low Risk 2. Manufacturing: a. High Risk b. Moderate Risk c. Low Risk 3. Agriculture : a. High Risk b. Moderate Risk c. Low Risk 4. Services
29	When assessing business clients in different sectors, do you seek advice from someone who knows about the sector? <i>If No, go to Q 31</i>	1. Yes 2. No 3. Sometimes
30	Please mention entity or person(s) whom you ask for advice/opinion?	..... .....
31	How would you rate your technical knowledge of the different sub-sectors in manufacturing?	1. Not adequate 2. Reasonable 3. Good
32	How would you rate your technical knowledge of the agriculture sector?	1. Not adequate 2. Reasonable 3. Good
32	Do you think training to build your knowledge of manufacturing and agriculture sectors will help you to better process loan applications in these two sectors?	1. Yes 2. No 3. Not sure
33	From your experience, how would you consider the credit application procedures for clients?	1. Very Easy 2. Easy 3. Average 4. Difficult 5. Very Difficult
34	From your experience, how would you rate the financial literacy or familiarity of clients with finance?	1. Poor 2. Average 3. Good 4. Very Good



Annex 2

Survey Questionnaire

(Credit Analyst)

1	Name	
2	Age (years)	
3	Sex	1. Male 2. Female
4	Education	1. Elementary School 2. Junior High School 3. Secondary School (General) 4. Secondary School (Vocational) 5. Diploma 6. Bachelor's (S1) 7. Master's (S2)
5	How many years have you been in your current position?	1. Less than one year 2. _____ years
6	How many years of experience do you have working as a credit analyst (including current position and positions with the same bank or other banks)	1. Less than one year 2. _____ years
7	During your current assignment, how many times have you received/attended training related to your core function?	1. None 2. (1) 3. (2-5) 4. (>5) <i>If respondent choose 1, go to question no 9</i>
8	How many new loan applications did you receive in the last six (calendar) months?	..... .....
9	Out of the loan applications that you reviewed in the last six (calendar) months how many did you approve/recommend for funding?	..... .....
10	What was the approximate proportion (percent) of loan applications that you reviewed in the last six months (calendar) by loan type?	1. Individual Consumption: ____ % 2. Business Loans: ____ %
11	In terms of business loans that you reviewed in the last six months (calendar), what was the approximate percentage of loan applications by sectors?	1. Trade (____)% 2. Agriculture (____)% 3. Manufacturing (____)% 4. Services (____)% 5. Others (____)%
12	Out of the total business loans that you reviewed in the last six months (calendar), approximately what was the percentage of loan applications from existing clients or repeat borrowers?	_____ %

13	Among the sectors listed, what was the approximate breakdown of loan applications from existing clients or repeat borrowers in the last six months (calendar)?	1. Trade (____)% 2. Agriculture (____)% 3. Manufacturing (____)% 4. Services (____)% 5. Others (____)%
14	What was the target number of loan applications that you wanted to approve/recommend for funding in the last six (calendar) month?	..... .....
15	Do you receive any incentives when you reach your target?	1. Yes 2. No 3. Sometimes
16	Client targets are set by...	1. Your supervisor 2. Primarily by you but in consultation with your supervisor
17	On average, how many new client applications do you have to assess each month?	..... .....
18	Do you get instructions from your supervisor in which sectors new clients should be mainly targeted?	1. Yes 2. No 3. Sometimes
19	How would you rank (in terms of importance) key criteria for selecting potential clients? Rank for 1 (very high), 2(average), 3 (not high) <i>Multiple answers possible</i>	1. Good credit history: (1) (2) (3) 2. Business sector: (1) (2) (3) 3. Ability to repay: (1) (2) (3) 5. Adequate collateral: (1) (2) (3) 6. Number of years business is running: (1) (2) (3) 7. Educational background: (1) (2) (3) 8. Gender: (1) (2) (3) 9. Character: (1) (2) (3)
20	How are you able to assess the character of a potential client? <i>Multiple answers possible</i>	1. Age 2. Interaction with client 3. Recommendation from someone 4. Appearance of client 5. Reviewing documentation of clients
21	What type of credit exposure has management set for these types of loans?	1. Productive: ____ % 2. Consumptive: ____ %
22	How well do you understand the business processes of your clients?	1. Very Well 2. General Understanding 3. Don't understand
23	Among the sectors listed, which sectors were recommended by your supervisor to target? <i>Multiple answers possible</i>	1. Individual Consumption 2. Trade 3. Manufacturing 4. Agriculture 5. Services 6. No Recommendations



24	When looking for new business clients, do you differentiate them by sectors?	1. Yes 2. No
25	When reviewing loan applications, do you assess the risk profile of businesses?	1. Yes 2. No
26	Following up on the previous question, which one do you consider as a critical risk?	1. Payment cycle 2. Demand for products 3. Business management 4. Character of the owner
27	How would you rate sectors in terms of potential credit risks?	1. Retail Consumption: a. High Risk b. Moderate Risk c. Low Risk d. Don't know 2. Manufacturing: a. High Risk b. Moderate Risk c. Low Risk d. Don't know 3. Agriculture: a. High Risk b. Moderate Risk c. Low Risk d. Don't know
28	When assessing business clients in different sectors, do you seek advice from someone who knows about the sector? <i>If the respondent chooses (1. Yes), go to Q 29, otherwise proceed to Q 30</i>	1. Yes 2. No 3. Sometimes
29	Please mention the entity or person(s) whom you ask for advice/opinion?	..... .....
30	How would you rate your technical knowledge of the different sub-sectors in manufacturing?	1. Not adequate 2. Reasonable 3. Good
31	How would you rate your technical knowledge of the agriculture sector?	1. Not adequate 2. Reasonable 3. Good
30	Please mention entity or person(s) whom you ask for advice/opinion?	..... .....
31	How would you rate your technical knowledge of the different sub-sectors in manufacturing?	1. Not adequate 2. Reasonable 3. Good
32	Do you think training to build your knowledge of manufacturing and agriculture sectors will help you to do better loan appraisals in these two sectors?	1. Yes 2. No 3. Not sure





PROMISE IMPACT

Decent jobs through financial inclusion

Promoting Micro and Small Enterprises through Entrepreneur's Access to Financial Services (PROMISE IMPACT) project was developed in partnership between the Government of Indonesia, the Swiss State Secretariat for Economic Affairs (SECO), and the International Labour Organization (ILO). The project supports financial service providers to operationalize development mission into specific metrics, craft strategies, and design services to help small businesses achieve greater productivity, growth, and jobs.