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Analysis of The Relationship Between Economic Growth, Micro Credit Absorption by MSMEs, Government Capital Regulations and Financial Digital Literacy

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Abstrak

Penelitian ini bertujuan untuk mengevaluasi peran biaya modal dalam mempengaruhi kemampuan penerima kredit dalam membayar kembali pinjamannya. Sampel penelitian ini terdiri dari 100 orang. Peneliti mengumpulkan data melalui wawancara, survei, dan catatan transaksi pinjaman. Penurunan suku bunga dalam program kredit mikro mempunyai dampak positif yang signifikan terhadap kinerja pembayaran. Hal ini meningkatkan kemampuan peminjam untuk membayar kembali pinjamannya dengan mengurangi jumlah cicilan. Kebijakan suku bunga rendah juga efektif dalam mengurangi risiko tunggakan dan mendukung tujuan inklusi keuangan dan pengentasan kemiskinan. Saran dari penelitian adalah penting bagi pemerintah untuk mempertimbangkan tingkat suku bunga dalam merancang program kredit mikro.

Kata Kunci: *Modal, Kredit, Pemerintah, Suku Bunga*

Abstract

This research aims to evaluate the role of capital costs in influencing credit recipients' ability to repay their loans. This research sample consisted of 100 people. Researchers collected data through interviews, surveys and loan transaction records. Reducing interest rates in microcredit programs has a significant positive impact on payment performance. This increases the borrower's ability to repay the loan by reducing the number of installments. Low interest rate policies are also effective in reducing the risk of arrears and supporting the goals of financial inclusion and poverty alleviation. The suggestion from the research is that it is important for the government to consider interest rates in designing microcredit programs.

Keyword: *Capital, Credit, Government, Interest Rates*

INTRODUCTION

Microfinance has experienced significant development over the past four decades, demonstrating the importance and rapid growth of this sector worldwide. Small loans, targeted at individuals or groups lacking traditional collateral, were the only products offered at its inception. Typically, individuals or groups use this loan to buy merchandise or raw materials, assuming joint responsibility for repayment within a short timeframe. However, the development of the microfinance sector does not stop there (Afifah et al., 2018). To meet the diverse needs of society, various financial products and services are currently under development. Various contractual modalities provide credit, savings, and insurance products. Institutions offering these services are becoming increasingly diverse, ranging from government and non-government organizations to private sector entities (Rahayu et al., 2018). This development reflects the flexibility and adaptability of microfinance in responding to the financial challenges and needs of society, especially those who are beyond the reach of conventional financial services. Thus, microfinance not only serves as a tool to provide financial access but also as a means to increase financial inclusion, empower individuals, and support economic growth in various communities (Arliani et al., 2019).

In line with the growth of the microfinance sector, the high repayment rates recorded by financial institutions in various parts of the world are considered evidence of the success of microcredit programs. This high repayment rate shows that loan recipients have a strong commitment to meeting their obligations, which in turn increases the financial institutions' trust in their customers (Apriliani et al., 2023). This success has attracted increasing interest from policymakers. They see microfinance as an important tool in economic and social development, as well as an effective mechanism for reducing income inequality in

underdeveloped and developing regions (Prakoso et al., 2024). By providing access to previously unavailable financial services, microfinance can help improve the well-being of individuals and communities, support small businesses, and encourage local economic growth. On the academic side, interest in microfinance also continues to grow (Hermiyetti et al., 2023).

Progressive research and literature focus on the analysis of microcredit design and its impact on mitigating common problems such as asymmetric information that exists in credit markets. Asymmetric information occurs when one party to a transaction has better information than the other party, which can cause inefficiencies in the market. Research has proven that microcredit, with its more personalized and community-based approach, reduces the negative impact of this asymmetric information, thereby increasing the efficiency of the credit market (Apriliani & Prakoso, 2023). This research also explores various other aspects of microfinance, including the effectiveness of various lending models, their impact on the economic and social well-being of loan recipients, and the role of technology in improving access to and efficiency of microfinance services. Thus, microfinance has become not only an important tool in economic development but also an important subject in growing academic research (Hutabarat et al., 2024).

Likewise, the phenomenon of low levels of payment delinquency contributes to the shift of microfinance institutions towards a new scenario. These institutions are not only focused on achieving the greatest social impact for the poor but are also starting to pursue financial viability. This shift is based on the idea that the success and expansion of microfinance depend largely on its ability to function as a sustainable market phenomenon without dependence on subsidies. Previous research emphasizes the importance of a market-oriented approach in microfinance (Tannady & Filbert, 2018). They argue that to achieve a broader scale and greater impact, microfinance institutions must be able to balance social and financial objectives. By ensuring that their services are financially viable, these institutions can continue to grow and serve more individuals and communities in need. This shift towards financial sustainability involves several strategic changes. Microfinance institutions are starting to expand their portfolio of products and services to cover the full range of people's financial needs, including savings, insurance, and money transfer services. This diversification not only increases the attractiveness of their services but also reduces financial risks by spreading out revenue sources. These institutions are starting to implement more sophisticated risk management practices to ensure their financial viability (Lois et al., 2017). This includes stricter credit assessments, better oversight of loans made, and the use of technology to improve operational efficiency. Technology,

such as advanced financial management information systems and digital payment platforms, enables microfinance institutions to reduce operational costs and increase the accessibility of their services. There is an increasing emphasis on the role of training and education for customers. By providing financial training and business assistance to customers, microfinance institutions not only help them manage their loans better but also increase their ability to develop their businesses and increase their income. This ultimately contributes to a low rate of repayment delinquencies and strengthens the financial viability of the institution. Overall, this shift reflects the evolution of microfinance from simply a tool for social empowerment to a sustainable and efficient business entity. By balancing social and financial objectives, microfinance can continue to grow and play an increasingly important role in promoting financial inclusion and global economic development (Tannady et al., 2023).

Additionally, several factors explain the success of microcredit institutions in maintaining low default rates and expanding the range of their services. They often have a deep understanding of local conditions and the needs of their communities, which allows them to offer appropriate products and provide the necessary support to customers. The shared responsibility model in many microfinance programs creates social incentives for customers to ensure timely payments (Prakoso et al., 2024). The training and assistance provided help customers manage their finances and businesses more effectively. With this new direction, it focuses not only on social impact but also on financial sustainability, making them an important player in efforts to reduce poverty and increase financial inclusion. The insensitivity hypothesis provides a new framework for understanding the financial behavior of the poor and highlights the enormous potential that microfinance has for supporting inclusive economic development (Hermiyetti et al., 2023).

As a result, the literature continues to focus on the comparison of two credit modalities, namely individual credit and shared responsibility credit, and their impact on various outcome variables such as arrears and repayment rates. However, there is little evidence regarding the effect of interest rates on similar outcomes for microcredit recipients. Existing research often explores how loan structure affects repayment performance. We compare individual credit, where each borrower is responsible for their own loan, with shared responsibility credit, where a group of borrowers collectively ensures repayment (Hutabarat et al., 2024). The study found that shared responsibility credit often results in higher repayment rates due to social pressure and group support, while individual credit may provide borrowers with more flexibility. However, the literature has not sufficiently explored the influence of interest rates on the repayment success and welfare of

microcredit recipients (Apriliani & Prakoso, 2023). Although there is some research showing that poor people are able to pay high interest rates and still gain significant economic benefits, in-depth empirical research on how variations in interest rates affect the behavior and financial outcomes of credit recipients is still limited.

RESEARCH METHOD

This research sample consists of 100 individuals, which allows causal analysis to understand the relationship between interest rates and delinquent behavior in loan repayment. The research design uses unexpected interest rate variations as a natural experiment with credit recipients. By observing how sudden changes in interest rates affect delinquent actions, this study aims to evaluate the extent to which the cost of capital influences credit recipients' ability and intention to repay their loans. Data were collected by sampling individuals who received microcredit. Data were collected through in-person interviews, surveys, and loan transaction records, which include demographic information, loan history, interest rates charged, and payment records. Data analysis uses the causal analysis method to evaluate the impact of changes in interest rates on delinquency. We use statistical methods like linear regression to identify the relationship between interest rates and outcome variables like arrears, frequency of late payments, and repayment rates.

RESULT AND DISCUSSION

The analysis results show that reducing interest rates has a significant impact on the payment behavior of microcredit recipients. In accordance with theory, reducing interest rates tends to increase credit repayment rates, reduce acts of delinquency, and overall improve the repayment performance of microcredit recipients. The implications of these findings are important, as they suggest that policies that support lowering interest rates in microcredit programs can directly influence the success of these programs in achieving their goals, such as reducing poverty and increasing financial inclusion. These findings also provide valuable insights for policy designers and practitioners in the field about the importance of considering interest rate factors in designing effective microcredit programs. By understanding how interest rates influence payment behavior, they can optimize program design to achieve the desired impact. Additionally, these findings also suggest that a better understanding of these mechanisms can help reduce risks and improve the sustainability of microcredit programs in the future.

The results of the analysis show that reducing interest rates has a positive impact on microcredit repayment rates. While this decline may seem small in percentage terms, its

impact is significant, especially because it occurs on a group of borrowers that already have a low default rate. This finding is consistent with previous research showing that lowering interest rates can improve repayment discipline, even among borrowers who already have a good repayment track record. In addition, these results also illustrate the importance of interest rates in designing effective microcredit programs. A reduction in interest rates can strengthen borrowers' ability and willingness to meet their repayment obligations, which in turn can help improve the overall performance of microcredit programs in achieving financial inclusion and poverty alleviation goals. Thus, policies that support lowering interest rates in microcredit programs can have a positive and significant impact on improving the economic welfare of vulnerable communities.

These findings suggest that the impact of low interest rates on default rates is more significant than seen in the initial model without additional controls. Borrowers who behave anticipatory tend to respond to lower interest rates by better managing their loans, thus reinforcing the positive impact of low interest rates on repayment discipline. This study incorporates additional controls to prevent other factors that could influence borrower repayment behavior from distorting estimates of the impact of low interest rates on default rates. These results emphasize the importance of considering multiple explanatory variables to gain a more accurate understanding of how changes in interest rates affect default rates. Overall, these findings support the hypothesis that lowering interest rates can reduce delinquency rates and increase repayment rates. Although the initial coefficient values may seem small, the addition of additional controls suggests that the true effect of low interest rates may be larger, especially for borrowers who already have good repayment discipline.

Reducing interest rates in microcredit programs can have a significant positive impact. A decrease in interest rates can reduce the number of installments that borrowers must pay. This can reduce the financial burden on borrowers and increase their ability to repay loans on time. In this context, research shows that lowering interest rates can reduce borrowers' default risk, as they tend to repay their loans more quickly when the cost of capital is low. Additionally, research also shows that lowering interest rates can increase borrowers' propensity to repay loans on time. This can help improve overall repayment performance in a microcredit portfolio. As a result, policies that support lower interest rates in microcredit programs can contribute to improving overall portfolio performance and reducing the risk of delinquency. However, it is important to remember that the effects of interest rate reductions may vary depending on the context and characteristics of a particular microcredit program. Therefore, to design more effective policies to support financial inclusion and

reduce poverty, we need further research and a better understanding of how interest rates influence borrower repayment behavior.

This analysis demonstrates that external factors or irrelevant variables do not influence the results of the main analysis, thereby strengthening the reliability of the findings regarding the impact of interest rates on borrower repayment behavior. Reducing interest rates directly contributes to improving microcredit repayment performance, indicating that policies that support lowering interest rates in microcredit programs can have a positive impact. These results provide additional support for the conclusion that interest rate reductions can have a significant positive impact on microcredit repayment performance. By ensuring that the analysis results are not influenced by external factors, this research strengthens the argument that policies that support interest rate reductions in microcredit programs can be an effective strategy for improving overall portfolio performance and reducing the risk of delinquency.

CONCLUSION

Reducing interest rates in the microcredit program significantly improves repayment performance, according to the analysis results. By reducing the number of installments and increasing the likelihood of timely loan repayment, a reduction in interest rates enhances borrowers' ability to repay their loans. These results also suggest that policies that support lower interest rates in microcredit programs can be effective in improving overall portfolio performance and reducing the risk of delinquency. The analysis also shows that lowering interest rates can reduce delinquency, even among borrowers who already have a good repayment record. Thus, policies that support lower interest rates can help achieve the goals of financial inclusion and poverty alleviation by increasing borrowers' ability to meet their repayment obligations. These findings also emphasize the importance of considering interest rate factors in designing effective microcredit programs. Lower interest rates can strengthen borrowers' ability and willingness to repay their loans, even among groups of borrowers who already have a low risk of default.

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