

**FACTORS OF NON-PERFORMING LOANS ON PARTNERSHIP PROGRAM
OF COMMUNITY DEVELOPMENT CENTER
(Case Study on PT TELKOM Tbk Kandatel Malang)**

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ABSTRACT

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This study aims to finding the factors that cause non-performing loans in partnership program of CDC PT Telkom Kandatel Malang. The data from CDC PT Telkom Kandatel Malang shows that there are decreasing percentage level of loan repayment. This study classified as qualitative descriptive study. Case study is employed as the research method to answer the research questions. Furthermore, the data collection methods used in this study are interview, documentation and observation. The result in this study reveals the factors that cause non-performing loans in partnership program of CDC PT Telkom Kandatel Malang are internal factors and external factors. The internal factors of non-performing loans in partnership program of CDC are difficulty in predict the 'character' of candidate partners, lack of human resources in CDC team to survey candidate partners and lack of monitoring the partners. The external factors of non-performing loans in partnership program of CDC are partners cannot compete with the market, the condition of Indonesia economy or changes in government policy and regulations that affect the business, partners did not make notes to record amount of money to pay the loan, partners did not submit business progress report for every 3 months to CDC, misappropriation committed by partners in utilizing loan, dishonesty of partners, partners do not have good intentions to pay the loan and the illness or health condition of partners.

Key words: *Non-performing loans, Partnership Program, Community Development Center, Corporate Social Responsibility, PT Telekomunikasi Indonesia Tbk.*

A. INTRODUCTION

The rise of business in the world has grown so fast. Nowadays, the easiness of starting business is one of the key trigger to this development. The readiness of micro small enterprises (MSE) to participate in Indonesia's business development takes an important role because MSE can grow into big enterprise, contribute to the Indonesia economy and reduce the number of unemployment. MSE can be a driver of economic growth, exports and home industry. However, MSE is also face major constraint such as the difficulty in business capital. MSE in Indonesia is expected to be able to grow their business to enhance the country's economic prosperity. Therefore, government have shown their concern for micro small enterprise by issuing *Permen BUMN Nomor PER-05/MBU/2007 Tentang Program Kemitraan Badan Usaha Milik Negara Dengan Usaha Kecil dan Program Bina Lingkungan* Chapter 1 Article 1 Act 6 which said that *Program Kemitraan BUMN dengan Usaha Kecil, yang selanjutnya disebut Program Kemitraan, adalah program untuk meningkatkan kemampuan usaha kecil agar menjadi*

tanggung dan mandiri melalui pemanfaatan dana dari bagian laba BUMN. State-owned enterprise is required to conduct partnership program to improve the ability of small businesses to be strong and independent by utilization of funds from the profit of state-owned enterprise.

PT Telekomunikasi Indonesia Tbk. or Telkom group or known as Telkom as state-owned enterprises also participates in strengthen Indonesia economic by conducting partnership program. Partnership program for small businesses conducted by PT Telkom is a form of Corporate Social Responsibility (CSR) as obedience to *Permen BUMN Nomor PER-05/MBU/2007 Tentang Program Kemitraan Badan Usaha Milik Negara Dengan Usaha Kecil dan Program Bina Lingkungan.* Holme and Watts (2000) stated that corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. Corporate social responsibility of PT Telkom is implemented in *Program Kemitraan dan Bina Lingkungan (PKBL)* that is specifically handled by supporting unit which called Community Development Center (CDC). Partnership program of CDC Telkom is intend to distributing credit loan to increase business capital of partners and also fostering their partners to be able to develop the business. It is to alleviate the business capital constraint faced by micro small enterprise, so the credit loan from Telkom CDC can help them to increase their business capital. Credit agreement is based on understanding between creditor and debtor that must be obeyed as a form of obedience to economic contractual. In practice, it contains elements of ethics in the economy that must be implemented either by creditor or debtor. Problems of ethics that might occur in case of credit loan are capital raise and credit payment. McFarlane (2013) stated that ethics, that is, good ethics in terms of being fair, honest, responsible, and upright helps to build credibility and trust for businesses.

Credit in implementation can give positive or negative effect. The positive effect can be achieved if it can be utilized to develop debtor's business and the repayment of the loan can be paid off. Achieving positive result is surely expected either by creditor and debtor. However, the negative effect of credit is non-performing loan. Non-performing loan is a condition when the loan cannot be paid by debtor. Non-performing loan can affect the stabilization of the creditor's economic health and become constraint for creditor to be able to distribute the credit loan for the next credit loan distribution schedule. Regarding the case of non-performing loan, implementation of partnership program by CDC Telkom is also face the problem. Based on loan repayment data from CDC PT Telkom Kandatel Malang in period 2012-2014, the amount of loan repayment is decreased which indicates the occurrence of non-performing loan in partnership program of CDC PT Telkom Malang. The percentage level of loan repayment in 2012 is 107%, this shows that all of partners have paid the loan. The percentage level in 2013 is 77%. It shows that there is decreasing loan repayment. In 2014, the percentage level of loan repayment is 67%, lower than in 2013. The objective of this study is to find the factors that cause non-performing loans in partnership program of CDC PT Telkom Kandatel Malang.

B. LITERATURE REVIEW

Corporate Social Responsibility

Bowen (1953) defined corporate social responsibilities as the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society. Holme

and Watts (2000) explained corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life. Based on Commission of The European Communities (2001), corporate social responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment.

Implementation of CSR program might costly for the company, but short-term and long-term benefits associated with CSR will be offset the costs. The company can gain tangible benefits that are in turn impact positively to employees and consumers as well as community and environment. The company would also gain benefits in social image, better reputation and employee and consumer loyalty. There is no exact definition of CSR though many expert had contribute their ideas to describe CSR. Explanation of CSR definition would always in the same path but the style of description might be different. One of the main point from CSR is that the company conduct their business in ethical way. Carroll (2004) explained the pyramid of Corporate Social Responsibility as follow 1) The economic responsibilities of the firm 2) Legal responsibilities 3) Ethical responsibilities 4) Philanthropic responsibilities.

Micro Small Enterprise

Micro Small Enterprises (MSE) or in *bahasa 'Usaha Mikro Kecil'* is business that could survive in monetary crisis in 1997. Based on *Undang-undang Republik Indonesia Nomor 20 Tahun 2008 Tentang Usaha Mikro, Kecil, dan Menengah* Article 6 Act 1 *Kriteria Usaha Mikro adalah sebagai berikut: a) memiliki kekayaan bersih paling banyak Rp50.000.000,00 (lima puluh juta rupiah) tidak termasuk tanah dan bangunan tempat usaha; atau b) memiliki hasil penjualan tahunan paling banyak Rp300.000.000,00 (tiga ratus juta rupiah). Kriteria Usaha Kecil adalah sebagai berikut: a) memiliki kekayaan bersih lebih dari Rp50.000.000,00 (lima puluh juta rupiah) sampai dengan paling banyak Rp500.000.000,00 (lima ratus juta rupiah) tidak termasuk tanah dan bangunan tempat usaha; atau b) memiliki hasil penjualan tahunan lebih dari Rp300.000.000,00 (tiga ratus juta rupiah) sampai dengan paling banyak Rp2.500.000.000,00 (dua milyar lima ratus juta rupiah).*

Sudaryanto and Hanim (2002) explained that small enterprise also face many problems, namely limited working capital, low human resources, and low skill in mastery of science and technology. Limited working capital is problem that make micro small enterprises cannot develop their business. The limitation of working capital is used as a basis to categorize business entity into micro enterprise or small enterprise. Problem of limited working capital for MSE nowadays can be overcome in many ways such as banks loan, institution loan, CSR grant of a company, etc. There are many ways for the MSE to increase their capital. PT Telkom Kandatel Malang with their CSR program has made serious effort to help MSE in increasing capital. PT Telkom working with CDC unit provides loans with certain requirement for their partners with lower interest than bank.

Credit

Credit comes from the Latin "*Credere*" means the trust of creditors on the debtor. The lender believes that the debtor will pay instalment of loan with interest as the agreement of both parties. Hasibuan (2008) explain that credit is all kinds of loan that must be paid back with interest by the borrower in accordance to agreed arrangement. There are few types of credit based on Kasmir (2002) 1) Terms of usefulness: Investment credit and working capital credit 2) Terms of credit purposes:

Productive credit, consumptive credit and trade credit 3) Terms of period: Short-term credit, medium-term credit and long-term credit.4) Terms of warranty: Credit with guarantee (collateral) and credit without guarantee (deposit) 5) Terms of business sectors: Agricultural credit, farm credit, industrial credit, mining credit, education credit, profession credit, housing credit, etc.

Before the creditor give loan for the debtor, they will do credit analysis to make sure that debtor will repay the debt. Most of creditor will use 5Cs elements as the basic components of credit analysis. The 5Cs elements used by creditor to determine the credit worthiness of potential debtors. The 5Cs of credit are capacity, capital, collateral, conditions and character.

Non-Performing Loans

Debtors are expected to pay the loan to the creditor as agreed in the agreement. However in fact, sometimes debtors are unable to pay instalment of loan in a timely manner and unable to pay off the loan. According to Suhardjono (2003) non-performing loans is a situation where the debtor is not able to pay some or all of their credit obligations to banks as had been agreed in the credit agreement. While according to Siamat (2001) non-performing loans can be defined as a loan that experiencing repayment difficulties due to deliberateness factor or due to external factors that beyond the control ability of debtor. It can be concluded that non-performing loans is situation where the debtor has deliberateness to not repay the loan or other factors that make the debtor is unable to pay some or all of their credit obligations to the creditor as had been agreed in the credit agreement. Based on *Surat Keputusan Direksi Bank Indonesia No.32/268/KEP/DIR 27 February 1998*, the categories of collectability of loans could be divided into: performing loans, sub-standard loans, doubtful loans and non-performing loans.

C. RESEARCH METHOD

The types of research of this research is qualitative research conducted in PT Telekomunikasi Kandatel Malang, specifically CDC unit of PT Telkom. According to Kothari (2004) qualitative method is very suitable to investigate and analyze the whole picture. Denzin and Lincoln (2000) explained that a qualitative approach emphasizes the qualities of entities, processes and meanings that are not experimentally examined or measured in terms of quantity, amount, intensity or frequency. Qualitative research is chosen because problem or issue need to be explored. Complex, detailed understanding of issue is easier to be identify with qualitative research. It also clarified by Creswell (1994) that in general, qualitative research can be defined as an inquiry process of understanding a social or human problem, based on a complex, holistic picture, formed with words, reporting detailed views or informants and conducted in a natural setting. The researcher can obtain detail data by talking directly to the people, observe their workplace and analyze the story from the source by what author expect to find the cause of problem. Based on explanation of qualitative research that has been stated previously, researcher expect can get an answer from the research question easier. The data obtained directly from informants and cannot be processed using quantitative research because the data in the form of words and explanations can directly confirm the answer from research question of the researcher.

Design of research used in this research is a case study which able to find a depth understanding of particular problems that researcher expected. According to Simons (2009), he stated that case study is an in-depth exploration from multiple

perspectives of the complexity and uniqueness of a particular project, policy, institution, program or system in a 'real life'. Creswell (2007) explained case study is a qualitative approach in which the investigator explores a bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information (e.g., observations, interviews, audiovisual material, and documents and reports), and reports a case description and case-based themes. Case study is not explored through one lens, but variety of lenses which enable the researcher to reveal and understand the phenomena. The data collection of case study can involve multiple sources of information that might help the researcher to study the complex phenomena.

The location of this research is conducted at 2 places, CDC unit of PT Telekomunikasi Indonesia Kandatel Malang located at Ahmad Yani Street No. 11 Blimbing Malang city East Java and the location of CDC Unit partners. The research conducted by researcher focus on CDC Unit of PT Telekomunikasi Indonesia Kandatel Malang because there are non-performing loans that must be analyzed to be able to wary on other similar cases in the future. Second focus for this research is partners of CDC Unit. The researcher would like to interview the partners with non-performing loans issues.

Data sources used in this research is primary data. The primary data is obtained from observation and interview. The primary data might be in the form of opinion, observation or particular event. Hox and Boeije (2005) explained that primary data are data that are collected for the specific research problem at hand, using procedures that fit the research problem best. The primary data in this research is such as result of interview with partners in CDC unit of PT Telkom Kandatel Malang experiencing non-performing loans and manager of CDC unit of PT Telkom Kandatel Malang. In this research, secondary data is also used by researcher. The secondary data can help the researcher to get more understanding besides using primary data. Furthermore, Hox and Boeije (2005) also explained that for some social research questions, it is possible to use data collected earlier by other researchers or for other purposes than research, such as official statistics, administrative records, or other accounts kept routinely by organizations.

Selection of informants conducted by researchers is based on purposive sampling. By using purposive sampling, the researcher expect the criteria informant obtained is in accordance to the research conducted. Therefore, the researcher select Mr. Indra Gatot Susilo, the assistant manager of CDC Malang area V East Java to be informant from CDC. While the selection of the partners as informants is based on homogeneous sampling due to similarity in several criteria such as experiencing non-performing loan, has passed two years loan period in CDC, in accordance to the criteria of non-performing loans in *Surat Keputusan Direksi Bank Indonesia No.32/268/KEP/DIR* 27 February 1998 and located in the one city.

The data collection method used by researcher for this research are as follows: semi-structured interviews, documentation, literature study and observation. According to Sugiyono (2010) interview is used as data collection techniques if researchers want to conduct a preliminary study to find problems that must be investigated, and if researchers want to get informations from respondents in depth and less number of respondents. Data collection techniques with interviews can be done in a structured or unstructured, and can be done through face-to-face or by phone. The document is a written, drawn, presented or recorded representation that might be used as complementary of interview. The documents is suitable for documentation in this research are books, relevant data, reports and others that officially from Telkom CDC

Unit. Documentation is conducted by gathering data and documents of company relevant with this research. Literature study is data collection method by studying the relevant literature with the problem under research. Observation is data collection method by observing the natural work environment of CDC Unit of PT Telkom Kandatel Malang and partners experiencing non-performing loan issue. Data analysis in qualitative research is more focused during the process of field data collection. There are few steps of data analysis of this study. First, reviewing available data from various sources, namely primary data from each informant transcripts obtained through interview. Second, data reduction by focusing on information or data that relate to the research. Third, categorize the data in sub chapter to ease in understanding the information obtained. Fourth, data display in form of narrative text, analysis or etc to present the data. Fifth, making conclusion for the research based on the data obtained.

F. FINDING & DISCUSSION

PT TELKOM Indonesia

Telkom Indonesia is the telecommunication business unit mainly in fixed wire line, fixed wireless connections, mobile communication, networking, interconnection services, internet and data communications. Telkom Group provides various services in the field of information, media and edutainment, including cloud-based and server-based managed services, e-Payment services and IT enabler, e-Commerce and other portal services. PT Telekomunikasi Indonesia is the parent company of the Telkom Group, which is engaged in a broad range of businesses that consist of telecommunication, multimedia, property and finance services. Telkom Group is the only state-owned telecommunications enterprise as well as telecommunications and network service providers in Indonesia.

As a telecommunications company, Telkom Group continues to pursue innovation in another sectors, not only in telecommunications and builds synergy among all products, services and solutions, from legacy business to New Wave Business. In order to increase business value, in 2012, Telkom Group changed its business portfolio into TIMES (Telecommunication, Information, Media & Edutainment Service). To run its business portfolio, Telkom Group has four subsidiaries, namely PT Telekomunikasi Indonesia Selular (Telkomsel), PT Telekomunikasi Indonesia International (Telin), PT Telkom Metra dan PT Daya Mitra Telekomunikasi (Mitratel).

Community Development Center

PT Telkom form unit with the name of Community Development Center (CDC). Telkom CDC as a supporting unit for the main business of Telkom has a strategic position to other business units in terms of empowering communities. With this strategic position Telkom CDC has two main responsibilities, Telkom CDC as a mandate holder as the executor of *Program Kemitraan dan Bina Lingkungan* (PKBL) and as the executor of Telkom Corporate Social Responsibility (CSR). Historically, Telkom CDC was initiated from the *Pembinaan Usaha Kecil dan Koperasi* (PUKK)/Small Enterprise and Cooperative Fostering Program in 2001. With the course of government regulation changes and the developing business demands, it transformed to CDC in 2003 by the BoD Decree No. 61/PS150/CTG-10/2003 concerning the establishment of Central Management Organization of PKBL and later was renewed by KD.12/PS150/COP-B0030000/2008 on February 5, 2008 concerning the management of Central Organization of Partnership Program and Community Development which

was then called Telkom CDC. Later on, in accordance with PD 202.06/r.00/PS150/COP-B0400000/2012 about West/East Telkom Division Organization on December 19, 2012, the Area CD organization management control has been handed over from Telkom CDC to East/West Telkom Division under its respective Witel organization. Generally the main activities of PKBL consist of partnership program and environmental development. By partnership program, Telkom CDC try to increase the ability of small entrepreneurs to be sturdy and independent, especially in industry sector, trade sector, plantation sector, agriculture sector, animal husbandry sector, fishery sector, service sector, etc.

The Internal Factors of Non-Performing Loans in CDC

The researcher conducted interviews with CDC Telkom Malang represented by Mr. Gatot Indra Susilo as the assistant manager of CDC Malang area V East Java. Through the interviews, the authors obtain information related to non-performing loans. Using this information, the researcher will be able to conclude the internal factors that allows the cause of non-performing loans.

Loan capital in general, aims to cultivate the deposited money in order to get the interest from the activity. Generally, the interest earned will be recorded as profit for a company, but it is different to the activity carried out by the CDC PT Telkom. There is interest in the implementation of the credit loan by CDC, but CDC of PT Telkom whose positions are distinguished by the operational activities of the main business of PT Telkom certainly record interest loans separately with profit operations. Similarly, the loss of loan capital will be record separately from the operations activities of PT Telkom.

Interest paid by the partners is for the partners themselves, not recognized as profit of PT Telkom. The interest is managed by CDC for training, seminars and exhibitions which aim to help the partners in introducing their products to a broader market for the benefit of the partners themselves. The CDC does not intend to take advantage of the interest paid is the proof that the implementation of the CSR of PT Telkom to contribute actively in providing guidance and assistance to micro small economic entrepreneurs.

There are several steps perform by CDC in anticipation of non-performing loans for candidate partners: interview, survey and determination of loan amount. Determining the nominal loan for candidate partners is beginning with interview to understand the intended use of loan, business program and prospect. Subsequently, the candidate partners submit the proposal. Thereafter, CDC team will survey to the location of business to analyze and compare the data in the proposal and reality in the business location. It aims to determine whether the result of interview and data in proposal are fit with the reality in business location. Stages of the survey also aims to find out how many assets, turnover, collateral, knowing the labor of business and knowing the mentality of candidate partners in terms of liveliness in his/her religion. Thus, the CDC team can eventually determine the nominal amount of the loan in accordance with the capabilities of candidate partners to pay the installment of loan and no difficulty to pay the loan. The credit loan analysis in interview and survey stage by CDC is also use 5C's elements to determine the credit worthiness of candidate partners.

By applying the principle of 5C, CDC Telkom can take precautions on undesirable cases. The 5C is consist of character, capacity, capital, collateral and condition. Every point in this 5C needs to be the basis of interview and survey. Based on interview with Mr. Gatot, the 'Character' is immeasurable and difficult to be predicted. The 'Character' element is important to be consideration to predict the

business prospects of candidate partners. CDC assess 'Capacity' of candidate partners by calculating and check directly the candidate partner's turnover and asset. The CDC calculate the capability of candidate partner's to pay installment of loan according to financial statement of candidate partners in the last 3 months. Mr. Gatot explained that the basic 'Capital' of partners based on profit of partners's business. While about 'Collateral' point in 5C, Mr. Gatot explained that the 'Collateral' which pledged by candidate partners will not be confiscated by CDC if the partner cannot pay off the loan. However, the high sense of ownership for the collateral is the consideration for CDC. The higher the collateral value, then the higher sense of ownership of candidate partners to their collateral. Furthermore, according to Mr. Gatot, 'Condition' is sometimes not relevant to the business prospects of candidate partners. The focus is in government involvement, the import product must be different with the product from partners. The CDC is assessing the 'Condition' element by consider the condition of import product that regulated by government.

There is trend for the partners to begin to not repay their loan is on second payment. Although the total number of partners who not pay since the second payment is only 3%, it indicates the low level of ethics in partners to conduct loan repayment as set in loan agreement. The process of non-performing loans settlement performed by CDC Telkom begin with reminding call, then reminding letter, visiting the business location or residence of partners and then rescheduling. The CDC usually will do reminding call 3 times, reminding letter after 6 months partners did not pay the loan and visit directly to partners residence to get evidence or the reason why partners did not pay their debt. CDC only remind the partners to pay the loan but not confiscate equipment or collateral of partners.

The coverage area of CDC PT Telkom Malang is 1/5 of the area in East Java. The number of CDC Malang Area V team is only consist of 3 members to handle all candidate partners and they are required to be able to sort candidate partners which qualified and able to be fostered. Thus the implementation of the Community Development Program requires the capability of executors to be able to work effectively and efficiently. Based on researcher experience when conduct internship in CDC, the CDC team carry out their survey together. The 3 members of CDC team is surveying the candidate partners at the same time in the same location.

The loan in CDC is a loan with loan interest rate of 6% per year, below the bank loan interest in general and the amount of loan granted is not always fully 100% as the amount requested by candidate partners because the nominal maximum loan is 60% of the value of the collateral. The CDC does not only provide credit loans, but also train partners to be able to develop their business better. Training here meant the training that aims to improve the performance of partners and also to help them be able to expand their market. Based on Mr. Gatot explanation, there are 3 level of training conducted by CDC to facilitate the partners with the proper training. First level is financial book keeping or income statement record training which aims to train the partners to be discipline. The second level is marketing and packaging training. The third level is export import training.

Result of Analysis on Internal Factors of Non-Performing Loans in CDC

The partnership program of CDC is a CSR program of PT Telkom that providing credit loan for partners. As a CSR program, of course the implementation of credit loan is different with the credit loan in the bank. The credit loan in CDC does not intend to make profit but as a form of obedience to *Permen BUMN Nomor PER-05/MBU/2007 Tentang Program Kemitraan Badan Usaha Milik Negara Dengan*

Usaha Kecil dan Program Bina Lingkungan Chapter 1 Article 1 Act 6. The interest from credit loan will be managed by CDC as administration cost for development of partners in the form of training, seminar and exhibition.

The ability of CDC management to be able to determine the right partners is important to anticipate undesired problem such as non-performing loans. The credit loan analysis in interview and survey stage by CDC is use 5C to determine the credit worthiness of candidate partners. The 5C is consist of character, capacity, capital, collateral and condition. Based on interview, CDC team has difficulty in predict the 'Character'. According to Ogeisia, Musiega and Manase (2014) there is relationship between borrower character on loan repayment which implied that the way borrowers behaved during credit accessibility or after acquiring credit from the banks had a lot of effect on determining the relationship that is formed during the lending process which would in turn affect effectiveness and efficiency of loan repayment. 'Character' is important to be known because it can be used to predict the intention of candidate partners to pay the loan, honesty and business prospects. The failure in predict the 'Character' due to difficulty in prediction, can result in the emergence of partners with a bad character or bad ethics which will affect loan repayment.

In performing their activities, the CDC team is consist of 3 members to cover 1/5 area of East Java. Inadequate number of CDC team has an impact on low quality of survey due to wide coverage areas of CDC Malang and long distance between each survey location. Based on the observation, the CDC often shorten the time of survey to meet the number of candidate partners that must be surveyed which leads to less optimal survey. It shows that there is lack of human resources in CDC to perform survey. Thus, there is opportunity for emergence of partners with low quality which result in non-performing loans because low quality of survey caused by lack of human resources in CDC. In line with Krisnasari (2011) that internal factors that causing problematic loans is lack of human resources. While according to Mr. Gatot, the benefits of surveying stage is to be able to determine the nominal amount of loan granted in accordance with the capabilities of candidate partners to pay the installment of loan and there will be no difficulty to pay the loan. In surveying, CDC can analyze the 5C (character, capacity, capital, collateral and condition) of candidate partners. Fatoki (2014) explained that the principle of the 5 Cs of credit is to establish the creditworthiness of a borrower. The concept if correctly applied seeks to evaluate the key criteria of repayment ability, by analysing the stream of cash flows, the character of financial discipline, and the financial health of the borrower and other qualitative factors.

Lack number of human resource will also has impact on lack of monitoring. Windartini, Musmini and Atmadja (2014) explained that lack of monitoring the credit influences non-performing loans because lack of monitoring from the internal to credit of debtor, so it can be detrimental to creditor because the possibility of loan given to debtor to be used for vain activities and not important. This is can lead to non-performing loans. The lack of monitoring occur in monitoring the problematic loan, monitoring the partners, monitoring the obligations of partners to submit business progress reports for every 3 months and others. Monitoring the obligations of partners to submit business progress report for every 3 months is important for CDC to evaluate the business progress and give appropriate training in accordance with the business condition of partners. Jackson and Kronman (1979) explained that to monitor the debtor's conduct after the loan has been made, or to require the debtor to assume contractual responsibilities, such as the preparation of periodic financial statements, that make it easier for the creditor to assess the financial consequences of the debtor's actions.

The External Factors of Non-Performing Loans in CDC

In this research, the external factors of non-performing loans is viewed from the partners to able to find reason or cause of partners did not pay their debt. The researcher selects 3 partners who experiencing non-performing loans as informant to be analyzed by using interview. The data of informants as follow: 1) Mrs. TM: 43 years old, lives in Pasuruan, her business is furniture business and she has illness 2) Mr. MA: 40 years old, Mrs. TM's brother, lives in Pasuruan and he has furniture business 3) Mrs. SA: 46 years old, lives in Pasuruan Regency and her business was the shrimp paste '*terasi*' but now she is selling plastic.

Based on the interview, it can be known that partners with non-performing loans have understood about how pay the loan and regulations regarding loan payments before the 10th of every month. Furthermore, the three partners also stated that the submission of loan capital to Telkom was easy. However, according to Mr. MA, he cannot directly listed as candidate partners in the period that he applied. Therefore, Mr. MA has to wait for a couple months before listed as candidate partner.

Partners' income fluctuation is reasonable because the unstable market conditions can affect significantly. However, a fluctuating income is a concern because it can indicate the inability of partners to maintain and increase income after getting loan from the CDC Telkom. Based on interview with Mr. MA, he said that there are many competitors around his business location. High number of competitors causing Mr. MA is not able to maintain stable sales. This indicates that Mr. MA cannot compete with the market, thus Mr. MA's sales decline.

The condition of Indonesia economy due to changes in government policy and regulations is frequently affect the product price in the market. Rise in price of products in the market including the price of raw materials for the production process of partners' business will lead to increase in production costs. The increase in production costs often cause an increase in selling prices which have an impact on difficulty to sell the product. Based on the three informants, they explained about the impact of Indonesia economy due to changes in government policy and regulation to their difficulty in doing business. Difficulty in doing business leads to the problem in business of informants that cause non-performing loans.

Besides the influence of Indonesia economy, the ability of partners to make a good financial statement to be able to control the money of business is other important thing. However, the implementation in micro small businesses, completeness level of financial statement is not like in the upper medium-sized businesses. Based on interview with Mrs. TM, she does not have special record or note for the separation of income and the money that will be paid to repay the loan to the CDC. One of the party interested with financial statements is the lender/creditor. Because the lender is interested in financial information that allows them to decide whether loans and the interest can be paid on the due. Therefore, CDC Telkom requires partners to report business development every 3 months to the CDC. Report of businesses progress 3 monthly reported by partners will be useful for CDC evaluation to give proper training for partners. However, based on information obtained from informants, the three informants did not submit the business progress report 3 monthly to Telkom.

The main objective of the MSE to borrow capital loans generally is to improve the business of partners. Utilization of loan capital from the CDC Telkom is important to be attentive point for CDC as the basis of 'trust' the partners that they will be able to develop their business and increase their net income so as to avoid cases of non-performing loans. However, there is Misappropriation committed by informants in using loan from CDC Telkom which is not in accordance with the purpose of the loan

proposed to CDC Telkom. As can be seen from Mrs. TM and Mr. MA who used some amount of loan for medical cost and daily needs. While Mrs. SA gave the loan to her brother to help him start a new business. Due to the utilization of loan which not fully for business development, causing the informants could not develop their business optimally.

Based on interviews with informants, obtained information that Mrs. TM did not repay the loan since the second payment and Mr. MA did not repay the loan since the third payment. While Mrs. SA had only been paying the loan for 2 times. The tendency of the partners with non-performing loans problems is not paying the loan since the early repayment schedule. Based on Mr. MA explanation, the condition of furniture continues to slump and he did not dare to use the money to repay the loan because he has no savings. Based on the explanation of Mrs. TM, income from the business is enough, but it is for medical cost. Mrs. TM prioritize to use the money for medical treatment than to keep her promise to pay the debt to the CDC Telkom. She did not pay the loan until now is because she has no money and will pay the loan when she has the money later. Business conditions is bad, while her illness should always be treated routinely and she has to fulfill her daily needs. Based on Mr. MA explanation, his reason not to repay the loan to the CDC is the declining sales. The additional burden that caused he did not repay the loan is he has to help Mrs. MA in medication cost. In addition, Mr. MA indicates that he has no good intention to repay the loans to the CDC because he wants to buy a new motorcycle to replace his damaged motorcycle. Based on Mrs. SA's explanation, she did not repay the loan because her brother not gave the money to Mrs. SA again. The loan from CDC was not used for her business development, but to help her brother to start new business.

Result of Analysis on External Factors of Non-Performing Loans in CDC

Mr. MA stated that his business location is near with many competitors who also sell furniture and there is unbalance between sales and number of buyers. Mr. MA stated that he cannot maintain stable sales or increase the sales because the problem. If partners cannot maintain the stable sales, there will be difficulties in loan repayment due to the business financial ability is very limited. Similar to result of the study from Mukhsinati (2011) that one of factors of non-performing loans is less ability of debtor in managing his business, so the income received is relatively decline.

Furthermore, the three informants also stated that the rise price of fuel affect the price of raw material for production cost and affect their business. Dodi Reza Alex Noerdin Econ as Vice Chairman of Commission VI in interview with Prabowo (2014) explained that a group of small medium enterprise (SME) is predicted will be the most groups that felt the impact of the increase in the price of subsidized fuel (BBM). Due to the price increase, raw material prices will also increase, thus production cost will increase. The consequence is there will be declining revenue of SME. The increasing production cost will result in the increasing price of selling product that will make it harder to be sold, as affirmed by Mrs. TM, thus the revenue of partners is declining. The condition of declining revenue of partners will make them difficult to pay the loan to CDC because limitation of financial ability. Thus, the other factor that causing non-performing loans is Indonesia economy or changes in government policy that affect the business of partners.

Mrs. TM in interview explained that she did not make notes to record the amount of money to be paid for installment of loan. The position of partners as debtor that must pay the debt to creditor requires partners to make notes to record the amount of money as the part of their simple financial statement. Cited from

<http://www.svtuition.org/2015/08/journal-entries-of-loan.html> by Kumar (2015) whether loan is given or loan is taken, it is must to record it in books because given loan is our asset and taken loan is our liability. Make notes to record the amount of money to pay the loan to CDC is important in order to be able to know the rest amount of debt and there is no negligence to pay the loan.

Besides that, partners are required to give business progress report 3 monthly to CDC. Reeves (2011) explained that as a condition of granting a loan, a creditor may request periodic financial statements in order to monitor the success of the business and spot any possible repayment problems. The business progress report is important for CDC to be able to evaluate the performance of partners and give appropriate training for partners. Fostering and training from CDC will help their partners to increase the ability in earning income and develop the business, so there will be no difficulties in loan repayment. However, the three informants stated that they did not submit the business progress report. It needs CDC team's role to monitoring in order to make sure that their partners obey the requirement such as submission of business progress report 3 monthly. Because the partners did not submit business progress report for every 3 months as obliged by CDC, it shows that there is lack of monitoring in CDC to the partners to make sure that their partners perform their obligation. According to Putra, Cipta and Zukhri (2014) lack of monitoring may cause to lack of information regarding the condition of the debtor's business, where the bankrupt business of the debtor will affect the payment of loan, so that the bank will experience problematic loans.

The utilization of loan is important to be attentive point as the basis of 'trust' the partners that they will be able to develop their business. Mrs. TM and Mr. MA used some portion of loan for daily needs and medication cost of Mrs. TM. Armana, Herawati and Sulindawati (2015) explained that loans granted to customers or debtors may be utilized for activities that are not important and not in accordance to the business needs. This is can lead to non-performing loans. Furthermore, Mentari (2013) explained factor of non-performing loans is bad ethic of debtor that causing non-performing loans such as misappropriation of loan and low morality of debtor. Meanwhile, Mrs. SA was dishonest since the interview stage because she stated to CDC that she will use the loan money for developing her business but in fact is she proposed the credit loan for her brother to start new business as requested by her brother. Mrs. SA also stated that she gave the loan directly to her brother after getting loan from CDC and she cannot develop her business at all and cannot increase her income.

Mr. MA stated that he want to buy new motorcycle to replace her damaged motorcycle. It indicates that Mr. MA has no good intention to pay the loan to CDC because he does not prioritize his promise to CDC that he will pay the installment of loan if there is money. In accordance to Sjafitri (2011) who stated that factor of non-performing loan is error omission that means the occurrence of non-performing loans is because deliberate intention to violate the policies and procedures as set. In this case, there is intention to not pay the loan as set in the agreement because there is no good intention to pay the loan.

The health condition or illness of Mrs. TM is causing she cannot pay the loan because the income from business is prioritized to be used for medical treatment cost routinely. The illness of Mrs. TM is also affect Mr. MA as her brother. Because Mr. MA is also use his income for medication cost of Mrs. TM although Mr. MA's sales condition is declining. This is in accordance to the finding from Ariyani (2014) that one of factor of non-performing loans is urgent necessity that cannot be avoided for example due to illness, accident, disaster, then the funds should be used to pay installments is used for treatment first.

E. CONCLUSIONS

Conclusions

Based on the findings of the research, it can be concluded that there are several factors that cause non-performing loans in partnership program of CDC PT Telkom Kandatel Malang. The identified factors of non-performing loans are internal factors and external factors. The internal factors of non-performing loans in CDC are as follows:

1. Related to 5C used by CDC to determine the credit worthiness of candidate partners, 'Character' is difficult to be predicted by CDC. Failure in predict the 'Character' will result to emergence of partners with bad ethics. According to Mr. Gatot, 'Character' is to predict the business prospects of candidate partners. Moreover, there is trend timing of partners to begin to not repay the loan since the second payment. It indicates the low level of ethics in partners to conduct loan payment as set in credit loan agreement.
2. Lack of human resources in CDC team to survey candidate partners. To cover 1/5 area of East Java, the CDC team is consist of 3 members. The inadequate number of members to cover wide areas and far distance between each survey location lead to low quality of survey to shorten the time to meet the number of candidate partners.
3. Lack of monitoring the partners due to the lack of human resource. The lack of monitoring in the obligations of partners to submit business progress report for every 3 months is seen on the findings from interview with partners that they did not submit business progress report for every 3 month.

The external factors of non-performing loans in CDC are as follows:

1. The partners cannot compete with the market, so the business sales volume decline. The declining sales volume will make the ability of partners to pay the loan is decreasing.
2. The condition of Indonesia economy or changes in government policy and regulations that affect the business of partners. The rise in fuel prices affect the business of partners because the price of raw materials will also rise. Thus, they have to raise their product sales prices which result in difficulty to sell the products.
3. Partners did not make notes to record the amount of money to be paid for loan installment. It is important to know the rest amount of debt and to avoid negligence to pay the loan.
4. Partners did not submit business progress report for every 3 months as required by CDC. The business progress report is important for CDC to monitoring the partners and give appropriate training.
5. Misappropriation committed by partners in utilizing loan. The loan is not utilized by partners in accordance to their loan purpose as stated to CDC. Thus, they cannot develop their business and increase the income optimally because some portion of loan is used for other purpose.
6. Dishonesty of partners that can be seen on Mrs. SA. Since the beginning, the intention to borrow was not good because she lied to CDC about the loan purpose. She conduct loan submission for her brother, not for her business development.
7. The partners do not have good intentions to repay the loan because there is tendency that partners in CDC begin to not pay the installment since the second

payment schedule. Moreover, Mr. MA stated that he want to buy new motorcycle after he promised to CDC that he will pay the loan.

8. The illness or health condition of partners. The illness of Mrs. TM makes her prioritize the money for medication cost than to pay the loan. It also affect her brother, Mr. MA, because Mr. MA is also use his money from business for Mrs. TM's medication cost.

Research Limitation

There are limitations in conducting this research. The qualitative research conducted certainly involves a lot of data collection and processing to obtain meaningful information. Therefore, it requires long time to be able to do this research. The other limitations is in the process of interview. The researcher has to adjust to Mr. Gatot schedule to be able to do interview because Mr. Gatot has hectic schedule. Then, the researcher must find the address of partners which is quite difficult because the location is out of researcher's town. The researcher also must be able to identify the right moment or time to interview the partners because the non-performing loans issue is a sensitive issue for the person who experience it. Thus, the interview with partners as informant can only be conducted once to avoid offending the feelings of informant.

Suggestions for Future Research

Future researcher studying similar topic is expected to fill the gap found in the limitation of the study section. Future researcher is expected to increase the number of informants for future research in order to increase the completeness of the data. Due to non-performing loans is a sensitive issue for person who experience, future researcher must be able to improve communication ability to persuade partners/informant to be willing to be interviewed and give more information.

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