

**THE IMPACT OF BANCO NACIONAL COMERCIO DE TIMOR LESTE
(BNCTL) CREDIT TO SMALL ENTERPRISES PERFORMANCE IN
MANATUTO, TIMOR LESTE**

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Abstract :

Timor Leste is a country located in Southeast Asia, northwest of Australia in the Lesser Sunda Islands at the eastern end of the Indonesian archipelago. Timor Leste has large as large as 14.874 km² with as 1.176 million population most of them are farmer. Manatuto is one of the districts of Timor Leste, located in the central part of the country. It has a population of 38,580 and an area of 1,706 km². This research aims to know the impact of BNCTL credit to SME's performance in Manatuto. BNCTL is the only one bank that exist in that district.

This study use primary data and analyzed by linear regression. 96% respondents believe that credit given by BNCTL is needed because it can help their business run very well without capital problems. In addition, 100% of respondent said that the procedure in proposing credit of BNCTL is easy. based on adjusted R² known that the credit of BNCTL has positive contribution as 95,9%. It caused by the lack of capital that influence to business turnover of Small Enterprise. Then after credit was accepted by Small Enterprise, it could help Small Enterprise to fulfill their capital needs in financing their business cost such as stock, payable and receivable.

It proven by questionnaires, that is 40% respondent have income more than \$4,000-higher than before which is 0% respondent does not have income as high as it. Furthermore, to show how the importance of credit to Small Enterprise performance

is can be seen by the result of empirical panel regression model that: (1) If Small Enterprise in Manatuto do not get credit from BNCTL, it makes the income will be decrease as IDR. -3.994.327.385, Meanwhile, every increasing of credit as IDR.1 will increase the Small Enterprise income as IDR 0.067. In other words, the more higher of credit number is implicated appreciate the Small Enterprise income in Manatuto, Timor Leste.

Keywords: **Income, Credit, Small Enterprise, BNCTL**

1. Background

Timor Leste is a country that has 13 districts. They are Dili; liquisa; Aileu; Ainaro; Manufahi; Ainaro; Cova lima; Viqueque; Baukau; Lauten; Manatuto; Bobonaro; and Ermera. One of the district is Manatuto. Timor Leste includes the eastern half of the island of Timor, the Ocussi-Ambeno region on the northwest portion of the island of Timor, and the islands of Atauro and Jaco. Timor Leste has large as large as 14.874 km² with as 1.176 million population most of them are farmer (Beritasatu newspaper, July 29, 2013). The potential sector in Timor Leste are Agriculture sector; Tourism and mining sector that influence to economic condition and people welfare. Manatuto is one of the districts of Timor Leste, located in the central part of the country. It reaches both the south and north coasts of the island, and is only one of two districts to do so (the other is Lautém in the far east). To the north is the Strait of Wetar, and to the south is the Timor Sea. The economic growth of Timor Leste was in high level in 2012. It was at 10%. However, the high level of economic growth was not followed by the lower inflation rate. The inflation rate was

by 9.0%. Therefore, the economic condition of Timor Leste was ranked by Human Development Index (HDI) list at 158. With 20% of the population unemployed, and 52.9% live on less than U.S. \$ 1.25 per day, Timor Leste is indicated as having low human development level. In addition, the rank of HDI affected the economic activity where human resources became the very base in every business turnover.

On the other hand, the government of Timor Leste is trying to increase economic growth in Timor Leste to reduce unemployment and poverty in the country. One of the methods used is by extending credit to small and medium enterprises (SMEs) in order to improve their financial life. It is proved that through the small and medium enterprises, unemployment rate and poverty rate can be reduced. Thus, SMEs can strengthen the economic condition. Viewed from the importance of SMEs in affecting economic growth, many banks in Timor Leste help SMEs to strengthen their own existence by giving credit facility. In Manatuto itself, only one bank that exist that is Banco Nacional Comercio de Timor leste (BNCTL). The BNCTL

branch office in Manatuto helps the society by providing micro business credit, working capital credit for productive business, and micro scale consumption. The financing facilities can also be given to all micro business owners, business group, and individuals (such as traders, farmers, payroll loans, and woman group loan).

The writer chooses this title to found out the fact that through SMEs credit distributed by BNCTL has a great impact to SMEs income, and the effect of SMEs, existence in Timor Leste, especially in Manatuto in extending employment. The writer wants to prove the role of BNCTL in increasing the people's lives and increasing society income, encouraging economy growth, and having roles in realizing national stability.

2. Research Problems

Based on the background above, the problems formulation that would likely to be sought in this study would be:

- a. Is there any credit influence from Banco Nacional de Timor Leste toward Small and Medium Enterprises in Timor Leste?

- b. How big is the elasticity between the Credit and SMEs performance?

3. Research Objectives

Objectives of this research are:

- a. To determine bank credit influence toward small and medium Interprises (SMEs) in Timor Leste.
- b. To find out the elasticity to SMEs performance caused by credit from BNCTL

4. Research Benefits

The implications of this study are:

- a. For researcher
Result of this study is expected to be used as comparison basic and theories learned during classes and implemented to help in solving problem of banking industry
- b. For Government

This research can be a reference for the government of Timor Leste to increase SMEs in the country and to invite the community for improving economic growth, because SMEs can reduce the level of poverty and unemployment in Timor Leste

- c. For Economy and Business Faculty

It is expected to be used for improving quantity and quality of paper writing in the university level. As reference and information for readers and subsequent writers, thus this paper could be perfected by subsequent writer.

d. For other Theory

As a theory, SMEs greatly assist the Society in improving the economic growth of a country, in order to improve people's lives and to reduce the level of poverty and unemployment levels.

5. Problem Limitation

From the above issue, this study was limited only to issues concerning Impact of Banco nacional de Timor leste Credit to Small and Medium Enterprises performance in Timor Leste (Case study of BNCTL branch office in Manatuto Timor Leste).

6. Literature Review

6.1 Bank Definition

A Bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets (Hermansyah,2006). Bank is a financial institution with

critical role in economy and trade activities since through this credit activities and other service provide by bank, it could serve various needs in economy and trade sector. It might be assumed that bank, in particular common bank, is the core of financial system in each country (Kasmir,2003).

A bank is the connection between customer having capital deficits and customer with capital surpluses (Djumhana,2006). Banks are the principal sources of credit (loan able funds) for millions of individual and families and for units of government. Moreover, banks today readily provide hundreds of different services to millions of peoples, businesses, and government all over the world.

According to Fuadi Munir (1999), Bank is an organization, usually a corporation, chartered by a state or federal government, which does most or all of the following receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes; certifies depositor's checks; and issues drafts and cashier's checks.

6.2 Roles of Bank

Banking sector is highly important for the smoothness of economy wheel in order to grow and develop significantly(Kasim,2003). Therefore, all involved parties with banking should understand the good, appropriate and healthy bank management, also in according with the rules of law. Banking institution is a financial intermediation institution within economy and act as an institution that provides payment tools and also as one of the fund source institutions to improve economy growth.

Bank functions in general would include (Anwari,1981):

1. Receiving all forms of deposit from the people;
2. Giving credit, either originated from fund receive from the people or based on its ability to create new buying power;
3. Giving services in payment and money circulation traffic.

6.3 Facilities provided by bank

Banks act as payment agents by conducting checking or current accounts for customers, paying checks drawn by

customers on the bank, and collecting checks deposited to customers' current accounts. Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending (Anwari,1981)

Banks provide different payment services, and a bank account is considered indispensable by most businesses and individuals. Non-banks that provide payment services such as remittance companies are normally not considered as an adequate substitute for a bank account. Banks can create new money when they make a loan. New loans throughout the banking system generate new deposits elsewhere in the system. The money supply is usually increased by the act of lending, and reduced when loans are repaid faster than new ones are generated.

6.4 Credit Definition

Badrulzaman(2002),defines credit as: "The ability of a businessman to borrow money or to obtain goods on time, in the consequence of the favorable opinion held by the

particular lender, as to his solvency and reliability”.

While according to Sutarno (2003): Credit is the money provision or bills that could be equated based on consensus or agreement in loan between bank and other parties which obligated borrower to repay his debt after certain time period with interest rate.

Until now, interest revenue as result from credit provision is still the largest contribution for overall bank revenue, either for domestic or overseas banks and international banks. Thus, it could be concluded that credit delivery is the main activity of a bank. On the other hand, credit delivery contains the largest business risk in banking world. Thus, credit management is highly important activity to be paid closer attention by each bank.

Nowadays, credit is a familiar term within society, not only known by urban and modern people but it is also known by rural and hinterland people. The familiarity of credit among people was caused by person who would always try to pursue his/her life needs. Various human needs would be

always increasing, while ability to reach one's desired is limited. This would cause human in need of help to fulfill his passion and aspiration. In this matter, to increase utility effort of goods it would need some help in the form of capital. Help or aid from bank in the form of capital addition would mostly call as credit (Sutarno,2003).

6.5 Kinds of Credit

1. The trait of the use of credit

a) consumer loans are loans used for consumption or money will be used up to meet their needs.

b) Productive Loans are loans that are used to increase the business, both production businesses, trade and investment.

2. Credit necessary

a) Loan production or exploitation

The credit required the company to increase the production of both an increase in the number of quantitative and qualitative improvement of production that is increasing the quantity or quality of production

b) Trade Credit

This credit is used for the general purposes of trade on which means increased utility of cypress place an item, traded goods is also required for the

3. Investment Credit

The loans to entrepreneurs for investment, meant to increase the capital and credit is not for the purposes of repairs or additional capital goods or facilities that are closely related to it. For example, to build factories, buy / replace machinery and so on

4. Credit by way of discharging

a) Credit-free overdraft

Debtor received all the credit in the current account is given in the form of a blank check and overdraft loans charged according to the amount of loans, borrowers are free to withdraw during the credits run.

b) Credit limited overdraft

The system is a particular border for customers to withdraw money account, such as loans with demand deposits and its conversion into money chartal done gradually.

c) Credit current account

Credit disbursement is done in terms of credit limit at the time of the first

withdrawal is fully utilized by the customer.

5. Revolving credit

Credit disbursement system in the same way with a free overdraft period of one year usage, but how to use it differently.

6. Term Loans

In these systems the use and very flexible credit usage means customers are free to use the money for any purposes of credit and banks are not willing about it

7. Loans by Guarantee

The credit generally is twofold:

Unsecured Loans (unsecured loans) is often also called blank credit and Secured Loans. This type is used by most banks, namely, providing credit guarantees. Credit guarantees can be in the form of land, houses, and factories or machinery factories, companies and securities.

6.6 Credit Function

Credit function is to channel funds that are needed by the community (Naja,2005). To the credit function in the lives of the economy are as follows:

a) Credit can improve the performance of emergency capital, it means that small traders can enjoy bank credit through the

Bank to expand its business, develop the business and the opportunity to try.

b) Credit can improve the usability of an item; with the help of loans from the Bank of the small traders can produce raw materials into finished materials, meaning the efficiency of the material.

c) Credit as a means of economic stability; a country whose economy is less healthy state of the economy, the credit can be as an example of economic stability in an effort to control inflation, increase in exports as well as the fulfillment of basic needs of the people.

d) Credit as a bridge to increase the national income; Loans used the business to increase the business volume production. Increased efforts will be expected to increase profit. When the cumulative gain further developed in the sense the word is returned to the capital structure, the increase will take place continuously and consequently revenue continues to increase. (Soewarso,2002)

6.7 SMEs Definition

Based on Freddy (2009), the small medium enterprise is activities that are able to improve employment, to give economic services in general for the communities, have roles even in distribution process, and improve the

communities' income, support the economic growth, and participate in the embodiment of the national stability. Besides, the SMEs is one of main pillars of national economic that should get main opportunities, support, protection, and development as wide as possible as realization of the favor to the people economic business. Although the Small medium Enterprises have showed their roles in the national economic, but still facing various obstacles of business climate, either internal or external in nature, for example, production, management, marketing, human resources, design and technology, capital.

Small and medium enterprises, according to UU No. 20 year 2008 concerning SMEs, there were several criteria used to define understanding and criteria of small and medium enterprise. Definition of SMEs would be as follows:

1. Micro Business (MB)

Micro business would be productive business own by individual and individual institution that fulfills micro business criteria as regulated within this statute.

2. Small enterprise (Micro business)

Small enterprise is productive economy enterprise which stand alone, conduct by individual or institution which is not include as subsidiary company or branch office of own, ruled or directly or indirectly part of medium or large business and fulfills small enterprise criteria as mention in this statute.

3. Medium enterprise (ME)

Medium enterprise is productive economy enterprise which stand alone, conduct by individual or institution which is not include as subsidiary company or branch office of own, ruled or directly or indirectly part of small or large business with net wealth or annual sales result as regulated within this statue.

Criteria for small and medium enterprises (SMEs) according to UU No.20 year 2008 would be classified by asset amount and turnover own by an enterprise describes as follows:

1. Micro business

- a. Having net wealth at most IDR 50.000.000,00 (fifty million rupiahs) not included land and building, or
- b. Having annual sales income at most IDR 300.000.000,00

(three hundreds million rupiahs).

2. Small enterprise

- a. Having net wealth more than IDR 50.000.000,00 (fifty million rupiahs) until at most IDR 500.000.000,00 (five hundred million rupiahs) not included land and buildings, or
- b. Having annual sales income more than IDR 300.000.000,00 (three hundred million rupiahs) until at most IDR 2.500.000.000,00 (two billion and five hundred million rupiahs).

3. Medium enterprise

- a. Having net wealth more than IDR 500.000.000,00 (five hundred million rupiahs) or
- b. Having annual sales income more than IDR 2.500.000.000,00 (two billion and five hundred million rupiahs) until at most IDR 50.000.000,00 (fifty billion rupiahs).

6.8 Small and medium enterprises Classification

In its development perspective, SMEs could be classified into 4 (four) groups, that were:

- a. Livelihood activities, is SMEs used as job opportunity to have livelihood, or commonly known as informal sector. Example would be street vendor.
- b. Micro business/enterprise is SMEs which has nature of a craftsman but yet has entrepreneurship nature.
- c. Small dynamic enterprise, is SMEs which has the spirit of entrepreneurship and able to receive sub-contractor and export duty.
- d. Fast moving enterprise, is SMEs which has the spirit of entrepreneurship and would transform into large enterprise.

6.9 Factor affecting SMEs Performance

According to Riyanti (2004) the factors affecting the performance of individual workers are: their ability, Motivation, support received. Existence of the work they do, and

their relationship with the organization. Based the definition above, the writer concludes that the performance is the quality and quantity of the work (output) individuals and groups in a particular activity that caused by natural ability or skills gained from the process of learning and the desire to excel.

According Mangkunagara (2000) stated that the factors that affect performance include: a) The ability factor Psychologically capability (ability) consists of employee skills and abilities of potential reality (education). Therefore employees need to be placed in jobs that match their expertise.

b) Motivation Motivational factors are formed from attitudes (attitude) an employee in a situation (situation) work. Motivation is a condition that drives self-directed employees to achieve work goals. Bounce of fattitude is a bounce off state that encourages a person to strive to achieve maximum employment potential. David C. Mc Cleland (1997) as quoted Riyanti (2004), argues that "There is a positive relationship between achievement motive at work achievement". Work accomplished by

the achievement motive. Achievement motive is an impulse in a person to perform an activity or task to be able to achieve my best performance (performance) the predicate commendable. According to Riyanti (2004) there are 3 factors that affect the performance of: 1) Individual factors: ability, skills, family background, work experience, level of social and demographic one. 2) Psychological factors: perception, role, attitude, personality, motivation and job satisfaction 3) organizational factors: organizational structure, job design, leadership, reward systems (reward system).

6.10 SME's Functions

SMEs Function is activity at the heart of growth, sustaining jobs, creating new employment and helping in the development and support of local production and increase the standard lives. This is particularly important, as not everyone wants to run their own business. Additionally, the job creation element of SMEs can enable many poor people to feel more secure, knowing that they have a stable job to go to each day. Through SMEs therefore also has a very large

function for economic growth in order to improve people's lives (Freddy,2009)

6.11 Importance of SMEs in Reducing the Poverty Level.

To accelerate growth and reducing poverty, the World Bank Group and other international aid agencies provide targeted assistance to small and medium size enterprises (SMEs) in developing economies. For example, the World Bank Group approved more than \$10 billion in SME support programs over the last five years, including \$1.5 billion in 2002. This pro-SME policy is based on three core arguments (Freddy, 2009). First, SME advocates argue that SMEs enhance competition and entrepreneurship and hence have external benefits on economy-wide efficiency, innovation, and aggregate productivity growth. From this perspective, direct government support of SMEs will help countries to exploit the social benefits from greater competition and entrepreneurship. Second, proponents of SME support frequently claim that SMEs are generally more productive than large firms, but financial market and other institutional failures impede SME development. Thus, pending financial and institutional improvements, direct government financial support to SMEs can

boost economic growth and development. Finally, people who have experiences in working with SMEs argue that SME expansion boosts employment rate more than large firms do because SMEs are more labor intensive. From this perspective, subsidizing SMEs may represent a poverty alleviation tool.

Susi Wahyuni 2006, in a study entitled "The Impact of Microcredit Provision Instituição de Micro finanças de Timor Leste (IMfTL) on net income Traders Market (Market Vendors) in Dili, Timor Leste, 2002-2005". IMfTL micro lending to the market traders in Dili Timor Leste aims to help increase net income trader. In this regard, this study aims to determine the amount of net income market traders, as well as to analyze the impact of micro credit on net income IMfTL market traders in Dili, Timor Leste.

The Results of this research show that: 1) the average of market vendors net income in Dili after receiving IMfTL's micro credit is \$10.73, higher than before receiving IMfTL's micro credit that is \$5.52. Based on kind of merchandise, after receiving IMfTL's micro credit, the average income of market vendors of durable goods is \$11.73, higher than the average income of market vendors of indurable goods that is \$8.43. Based on

market, the average income of market vendors in Comoro Market has the higher increasing among four markets in Dili. 2) micro credit of IMfTL is able to increase the market vendors income in Dili as totality, in each market, and in both kinds of merchandises in all market. Based on those results, it is suggested that to continue that micro credit with several improvement, so that the positive impact of micro credit can improve. The improvements are increasing the amount of micro credit receivers, increasing the amount of micro credit, and increase the quality of micro Credit services.

6.12 Role of SME To Improve the welfare

SMEs or small medium enterprises have an important role in reducing unemployment, poverty and to objectify development equal distribution.

From world view, it is recognized that micro, small and middle enterprise (SMEs) has played vital role within economy development and growth, not only in developing countries but also in developed countries. In developed countries, SMEs is highly important since this enterprise group would absorb the

most labor compared to large enterprise, such as occurring in developing countries, but it also give contribution toward largest establishment or growth of gross domestic product (GDP) compare with contribution from large enterprise. About 12 million people or about 63,2 percent of all labor in United states (US) worked in 350.000 companies that employed less than 500 people. In this country's classification it is an SME. The number of SMEs in the US reaches slightly above 99 percent of enterprise unit for all categories. SMEs or SME is also deemed important in many countries in Europe, particularly in Western Europe. In Netherlands, for instance, the number of SME reached about 95 percent of all firms in this country. Likewise in US, advanced industrial nation such as Japan, Germany, France and Canada, SMEs or SME is an important motor from economy growth, innovation and progress technology. In developing countries such as in Asia, Africa and Latin America, small and medium enterprises or SME also has important role particularly if being viewed from job opportunity perspective and revenue sources for poor group,

income distribution and poverty alleviation, and rural economy development.

6.13 SME'S Problems

There are the problems faced by small and medium enterprises. The role of small businesses in Indonesia is recognized as very important for the national economy, especially in aspects such as increased employment, income distribution, rural economic development and an increase in non-oil exports. There had been a lot of work done by the government to assist the development of small businesses through a variety of program development or small business development program including the partnership between medium and large businesses to small businesses (Riyanti, 2004)

However, small business development to date is running very slow. For example, in manufacturer industry sectors, the level of productivity or output contribution of small and home industries to the formation of total value added in the sector or the gross domestic product is still relatively low compared with medium and large industries.

One cause of the lack of success of the development or small business development in improving the condition

or performance of the group of small businesses, from position to position weak and strong traditional and modern is the pressure of the government's policy orientation program or more located in the "social" rather than "economic aspects or business ". So far, efforts to develop small-scale economic activities are generally labor-intensive and carried out by the poor less educated shown to increase or reduce the number of their opinions unemployment and inequality. The fundamental problem in the field of management for small entrepreneurs in various sectors are:

6.13.1 Capital

This includes 1). Bank lending rates are still high, and loans can be expensive, 2). Information sources of financing of non-bank financial institutions, such as state income allowance funds and venture models, is still lacking. This information includes information resource types of financing as well as the requirements and filing procedures, 3). Systems and procedures for bank credit from financial institutions and non-banking complex and long, in addition to credit disbursement waiting time is uncertain, 4). Less banking standards inform the credit proposal, so that small businesses can not afford to

make a proposal in accordance with banking criteria, 5). Banks do not understand the criteria for assessing the eligibility of small businesses in small business, so the number of loans approved often does not fit the needs of small businesses.

6.13.2 Marketing

This includes; 1). Bargaining power in dealing with small entrepreneurs great entrepreneurs always weak, especially relating to the pricing and paying system, as well as the layout and small business products in department stores and supermarkets; 2). Employers or professional associations have a role in coordinating the unhealthy competition among similar businesses ;3). Information to market products at home and abroad are still lacking, for example about the desired product, who is the buyer, the place of purchase or potential markets, product markets as well as procedures for tendering work primarily on business services.

6.13.3 Raw Materials

This includes 1). Inadequate supply of raw materials and fluctuations, among

others, the export and import policy changes, large buyers who control the raw material, the reluctance of the employers to make a contract with small businesses; 2). Raw material prices are still too high and fluctuate due to monopolistic market structure or market controlled by employers; 3). Quality raw material is low, partly because of the lack of standardization and manipulation of raw material quality; 4). System cash purchase of raw materials complicate small entrepreneurs, while payments are generally not cash sales.

6.13.4 Technology

This includes; 1) Skilled labor is hard earned and maintained, partly because of lack of education and training institutions to produce skilled manpower according to the needs of small businesses; 2) And access to information technology resources are lacking and uneven, while still less vigorous dissemination efforts; 3) Equipment specifications to suit the needs (appropriate technology) difficult to obtain; 4) No independent agency and not play, especially institutions that examines the technology offered by the market to small business person, so that this technology cannot be utilized optimally; 5) The role of government agencies, non-

government and universities to identify, locate, distribute and perform the technical development of new technology or appropriate technology for small businesses is less intensive.

6.13.5 Management

This includes; 1) Management patterns that suit your needs and stage of business development is found difficult, partly because the knowledge and managerial skills small business is relatively low. As a result, small businesses have not been able to put together the right business strategy; 2) Separation between corporate financial management and family or household has not been done, so that small businesses have difficulty in controlling or manage cash flow, as well as in the planning and financial reporting.

6.14 Relationship between Bank and Small and Medium enterprises (SMEs)

Banks are business entities that raise funds from the public in the form of deposits, and distribute them to the public in order to improve the living standard of the people. Thus, the Bank is a financial institution which primary goal to give

credit to the community in the form of saving, and to distribute funds to the community in the form of credit and other, in order to improve people's lives. Because through lending activities and the various services provided by the bank, it can serve a variety of needs in various sectors of economy and trade.

Banks help the community by providing credit to SMEs customers or extend credit called credit for SMEs. Credit small and medium Enterprises is one of the instruments of business development and a portion that always gets great attention in a country due to the disbursement of credit to the SME sector of the economy will drive the economy as well. Growth of a country will always tied to economic growth in the real sector average sustained by the perpetrators of Small, Micro and Medium Enterprises.

The successful business SMEs and the Business Micro really need assistance or training small and medium and access to capitals SMEs in developing their efforts can be done in a maximum. The perpetrators of small and medium enterprises need capital to start his business. Bank, as a financial institution has a role in facilitating access of capital for entrepreneurs, by giving them credit, and providing guidance to businesses in

order to expand its business well and get maximum profit. For Small and Medium Enterprises, it is one of the important parts of the economy of a country as well as at the regional. SMEs play a central role faster. It is also very helpful for the country and the government. In this case, the new employment opportunity through Small and Medium Enterprises unit also created many new work units that use the energy - new energy that can support household incomes, Apart from the Small and Medium Enterprises, it also has great flexibility.

6.15 The impact of credit to SMEs

Almost all the problems of small businesses that cannot evolve because of the lack of capital that they have, and the need for additional funding from outside sources either in the form of assistance from the government and a loan from financial institutions. Small and Medium Enterprises (SMEs) have a great potential in improving the lives of ordinary people, and objectify the free market economy, but it is constrained in terms of capital adequacy. It is necessary to find a solution how best to Small and Medium Enterprises (SMEs) can be empowered to live naturally, which can ultimately increase revenue. However, the most important is the provision of funds or

capital in order to improve the business, and most of these funds are expected from financial institutions such as banking institutions.

From credit offered by the Bank and its reserved services, it can help people with economically weak or small businessmen. Society needs to make an effort to meet the needs for improving their welfare. In reality, not all people, especially the middle and lower layers have sufficient capital to open or expand a business and productivity. Thus, in this case, the middle income people need help in the form of loans or credits that they could find one sector in banking institutions. Credits are required by the public either by individuals or businesses. Banks as financial institutions have a strategic role for the economy life. It can be seen from the main function held by the bank as an institution that raise and distribute funds from the public.

From the main functions of the bank, the bank can be said as an intermediary institution that serves as a link between people who have money and that costs money. The role of banks in the economic development of a nation is very vital like a heart in the human body. Both affect each other in the sense that banks can channel funds for economic activity, so that a

healthy bank would strengthen the economic activity of a nation. Conversely, unhealthy economic activity will greatly affect the health of the banking world. Passage of lending activities will be smooth if the existence of a mutual trust of all parties involved in these activities. The activities can be realized only if all parties have moral integrity.

7. Research Methods

The location of this study is in Manatuto, Timor leste, with the object of research is the Impact of Banco Nacional Comercio de Timor leste credit to the Small and medium Enterprises performance in Manatuto, Timor leste. The type of this research is field research where the writer use in collecting data by taking data from related institution and interviewing. The next, the writer analyze and interpreted the related data to reach representative result. Sources of data used in this study are primary and secondary data by taking the data from branch of BNCTL in Manatuto to know the Impact of BNCTL Credit to SMEs performance in Manatuto.

To obtain and gather the necessary data, the writer used documentation and interviewing method. The analyze method used linear regression which is

understanding of the general regression is a statistical tool that provides an explanation of the pattern of relationships (models) between two variables or regression analysis known more than 2 (two) types of variables (Alhusin,2003)

8. Findings and Discussion

Based on findings and hypothesis, that the credit given by BNCTL to SMEs in Manatuto is highly useful for the SME performance improving. According to linier regression model :

$$\text{Income} = -3994327,385 - 0067 \text{ Credit}$$

If SME in Manatuto do not get credit from BNCTL, it makes the income will be decrease as IDR 3.994.327.385,-. Meanwhile, every increasing of credit as IDR.1 will increase the SME's income as IDR 0.067. In other words, the more higher of credit number is implicated appreciate the SME's income in Manatuto,Timor Leste.

This result prove that BNCTL credit is really needed by SMEs. Based on the questionnaire that spread out in Manatuto, the causes that this credit is very useful for SMEs are the easier process service in proposing credit. 100% from 50 respondents said that the proposing credit

process in BNCTL is very easy. According to BNCTL credit guide book, the people who would propose credit should have identity card, collateral, new recent photo, a business license, business place photo, marriage certificate, account statement and have a good character. In addition, because of this facility, 100% of respondents are understood the procedure and how they can use their credit wisely. Furthermore, 96% of respondents believe that the BNCTL credit is very important for their business. Because, the economic condition in Timor Leste is still in not good condition. As described before, the inflation rate in 2012 achieved about 9%. Means that, the price of goods is expensive because people hold money more. Meanwhile the production cost of each business there is higher than their own capital. So, the credit from BNCTL is very important for them. Besides that, the result of statistic analysis which is based on adjusted R^2 known that the credit of BNCTL has positive contribution as 95,9%. It caused by the lack of capital that influence to business turnover of SMES. Then after credit was accepted by SMES, it could help SMES to fulfill their capital needs in financing their business cost such as stock, payable and receivable. In addition, the interest rate of credit is tend to low. For credit a year, the interest rate

is only less than 10% in a year. Then, if credit period is more than 3 years the credit interest rate is as much as 12% per year. 23 from 50 respondents use one year credit period and 16 respondents use more than 3 years credit period. That interest rate is affordable for them. It showed by the changing of their income after they got credit. Before they do not have credit, their income only is less than 20 million rupiah. But, surprisingly after they got credit, they can increase their income become more than 40 million rupiah. Logically, this phenomena is caused by their capital and asset become higher after getting credit. It impacted to their business expansion which able to help government in reducing poverty and unemployment, increase production level and consumption, investment and inflation level in macro side.

Conclusions and Recommendations

As describe before that credit facility given by BNCTL to SME's highly help business activities in Manatuto. Through easier process and mechanism, people who run business can get credit facility from SMEs which able to increase their income as showed by the questionare results. One of indicator of improvement performance in SMEs is income. So, in

this study is discussed how is credit can impacted to SMEs income and can be conclude as below:

1. 96% respondents believe that credit given by BNCTL is needed because it can help their business run very well without capital problems. In addition, 100% of respondent said that the procedure in proposing credit of BNCTL is easy. Means that, BNCTL credit facility really help people in Manatuto who has business.
2. The result of statistic analysis which is based on adjusted R^2 known that the credit of BNCTL has positive contribution as 95,9%. It caused by the lack of capital that influence to business turnover of SMES. Then after credit was accepted by SMES, it could help SMES to fulfill their capital needs in financing their business cost such as stock, payable and receivable. It proven by quisionare, that is 40% respondent have income more than \$4,000-higher than before which is 0% respondent does not have income as high as it. It supported by the easier process of credit propose process, where 100% of respondents understand and have knowledge about BNCTL credit. In addition, interest rate that given by BNCTL in credit is tend to low. 46% of respondent said that

generally they should pay interest rate only 10% in a year for one year credit session.

3. Furthermore, to show how the importance of credit to SME's performance is can be seen by the result of empirical panel regression model that: (1) If SME in Manatuto do not get credit from BNCTL, it makes the income will be decrease as IDR -3.994.327.385,-. Meanwhile, every increasing of credit as IDR.1 will increase the SME's income as IDR 0.067. In other words, the more higher of credit number is implicated appreciate the SME's income in Manatuto,Timor Leste.

5.2 RECOMMENDATIONS

According to the results of this research, that credit has significant effects to the SME's performance in Manatuto,Timor Leste. So government and BNCTL of Manatuto should be able as follows:

- a. Government recommended to gives people in Manatuto job training in order to improve Manatuto people quality. So that, they can be independent entrepreneur which will increase their welfare; decline unemployment and decrease poverty.

- b. Government should add more finance institutions such as cooperation and banks so credit facilities will rise.
- c. BNCTL suggested giving more services related with credit facility. For example: giving a prize, providing new technology to easier consumer reach credit, and add more kinds of credit.
- d. For the next research, suggested to search how is credit impacted to GDP in macro side. In order to know the relationship between micro and macro effect created by credit.

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