EFFECTIVENESS OF STATE-OWNED CREDIT GUARANTEE CORPORATION IN INDONESIA: COST AND BENEFITS TO SMALL AND MICRO ENTERPRISES

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Abstract

The purpose of this study is to investigate the effectiveness of the State-owned Credit Guarantee Corporation (CGC) in Indonesia by exploring a costs and benefits analyses. A survey method was conducted in 2014, and the respondents were selected from the tourism industry in Lombok Island. The result showed that Indonesian CGC had an efficient operation related to the ability of guarantee fee to cover claims and total operating costs. Guaranteed loans could increase sales and profit of the SMEs, however, could not raise employments growth significantly. Moreover, social capital had an important role for the effectiveness operation of the CGC.

Keywords: Credit Guarantee Schemes (CGSs), cost and benefit, Small and Medium Enterprises (SMEs)

1. Introduction

Small and micro enterprises (SMEs) are the engine of economic development, especially in developing countries. They have an important role to increase poverty alleviation and income redistribution. In Indonesia, those enterprises contributed to 53.49% of GDP and employed 85.4 million people (96.2% of total employment) (BPS, 2007). However, they are more financially constrained than large firms that interfere their development. The credit, which was supplied to small business, is lower than to large companies. In Indonesia, only 12% of total loans from the commercial banks was lent out to small enterprises (BI, 2014).

The imperfection in the credit market is a primary cause of the SMEs' financing constraints. Stiglitz and Weiss (1981) identified this problem as a situation that the lenders do not have full information about the borrower, whether the borrowers have an ability or willing to pay back the loan. As a result, the financing for small firms is classified as a risky lending by the banks due to their creditworthiness. Thus, many governments have designed many support programs to overcome these financing constraints. The Credit Guarantee Scheme (CGS) is commonly believed to be an effective method to increase the financial access for SMEs (Boocock and Shariff, 2005; Saadani, 2011).

One of the key issues about this program is the efficiency operation of the schemes. Many researchers have studied this problem and found contrary evidence about the effectiveness of the guarantee scheme (Graham, 2004; Boocock and Shariff, 2005; Riding et.al., 2006; Zecchini and Ventura, 2009; Cowling, 2010; Saadani, 2011). Meyer and Nagarajan (1996) argued that studies on the implementation of guarantee scheme mainly focused in developed countries, meanwhile there is no comprehensive evaluation of this subject that have been conducted in developing countries.

Indonesia as a developing country has implemented the guarantee schemes for more than 40 years. However, the scheme is still raising a question whether it is efficient and able to reach the significant number of the target groups those faced a financial constraint. Hiemann and Noorjaya (2001) reported that in 1998, about 75% of guaranteed loans by Indonesian Credit Guarantee Corporations (CGCs) were considered a loss. Then, the fact that the SMEs in

Indonesia still face the same problem in accessing a loan from the commercial banks due to a lack of collateral. The lenders insist on asking for enough collateral to approve a loan even it is guaranteed by a CGC. The CGCs in Indonesia still work as a supplementary party for the commercial banks by applying the banks mechanism for running the small lending. In this point, the role of CGC in mediating the lenders and the borrowers need to be considered.

Therefore, this study aims to investigate the implementation of guarantee schemes in Indonesia by evaluating their effectiveness. Quantitative and qualitative dimensions were explored to examine whether the CGS, which operated by Perusahaan Umum Jaminan Kredit Indonesia (Perum Jamkrindo), has operated efficiently due to cost and benefits of guaranteed loan. Using a survey on the borrowers of Perum Jamkrindo, the authors investigated the benefit of guarantee schemes for SMEs by measuring the finance additionality (FA) and economic additionality (EA).

The paper opens with the description of the characteristic of CGSs to support SMEs on accessing finance. Next, the paper describes the state-owned credit guarantee corporations in Indonesia. Then, it follows by a description of methodology research. The subsequent parts represent the cost-benefit analysis of stated-owned guarantee companies in Indonesia. At last, the paper closes with a conclusion and recommendation for improvement on credit guarantee operation.

2. Literature Review

2.1. The Rationale of Credit Guarantee Schemes (CGSs)

Small and Micro Enterprises (SMEs) face inequalities in bank credit markets when looking for a capital loan because the existence of asymmetric information between bank lenders and borrowers. The asymmetric information, such as adverse selection and moral hazard, refers to a condition where one party has more or better information than the other. Craig et al. (2007) argued that these information problems seem severe that cause to a financial constraint for small lending and be considered as the failure of the credit market.

Under perfect information, the banks will charge an interest rate that describes the involved risk of the loan. However, the bank lenders will raise the interest rate where the adverse selection takes place, and the demand for the loans is excess. Craig et al. (2005) argued that the bank lenders will use various screening methods to get the expected return on the loans, which is influenced by the performance of repayment. He reveals that the interest rate that a borrower agrees to pay could play as one of a screening tools. The borrowers that are willing to pay a higher interest rate are likely to be worse risk since they perceive their probability to repay the loan to be lower. As a result, it may lower the expected profit of the banks from the small lending. Further, in the absence of enough collateral, the credit guarantee scheme is used for transferring risk faced by the banks due to the probability of default. The guaranteed loan should improve credit allocation for small enterprises through creating an appropriate method for pricing loans that is not influenced by borrower behavior.

Credit Guarantee Schemes (CGSs) are one of a common feature of financial systems around the world which have created since the beginning of the 20th century (Beck et al., 2010). The CGSs are an integrated program for supporting the financial development for SMEs in developed and developing countries (Cowling, 2010). Graham (2004) argued that CGS improves the market failures that make drawbacks to the successfulness of enterprises, investments and business growth.

Particularly CGS is designed for supporting financial development for medium, small and micro enterprises due to their difficulties to get financial assistance from financial institution. Therefore, the objective of the CGSs is to mitigate SME credit risk considering the current situation that private banks do not have adequate room to extend their credit to SMEs. These programs ensure the repayment of a loan, in part or in full, to encourage the lender to provide the credit loan for groups that could not have an ability to access a loan under normal conditions.

2.2. Effectiveness of Credit Guarantee Schemes

Study on the effectiveness implementation of the CGS will be more meaningful if the three parties of the CGS are monitored. The cost-effectiveness is an important method to monitor the guarantor. It can be measured base on the transaction costs of guarantee issued, the ability of the premium fee to covers the transaction costs, default rate, and recovery rate. The common indicator to assess the performance of borrowers is additionality, which comprised of financial additionality (FA) and economic additionality (EA). Then, 'the most tangible parameter of the performance of participating lenders is the claims rate` (Jonsson, 2009).

The primary cost for CGS is covering the cost of loan default (Riding and Haines, 2006; Cowling, 2010). The default rate is one of the important measurements of the CGS performance, a very low default rate of a CGS may imply limited activity and high risk aversion (Green, 2003). On the other hand, a high default rate could indicate raises the inefficiencies in the scheme for widening access for the small lending propositions (Graham, 2004). Moreover, Riding and Haines (2006) conclude that the possibility of defaults on the guaranteed loan is related to the proportion of guarantee provided by the guarantor institution. The rising of default rates related to the increasing level of the guarantee. However, the default rates will probably rise and reach the highest point in the first two years of the program but benefits are probably to continue further (Riding and Haines, 2006; and Cowling, 2010).

The (FA) refers "to what extent the beneficiaries of the scheme have been able to access loans that would not have been available in the absence of the scheme" (Jonsson, 2009, p.59). Meanwhile the economic and social benefits are described in the concept of EA (Boocock and Shariff, 2005). The EA determines to the outcome resulting from the financial support provided to a client. Those outcomes give some positive effect to the performance of firms (direct EA), and the increasing benefits from the activities of guarantee recipients (indirect EA). Direct EA is usually measured through changes in employment, profit and turnover. The benefits from the dimension of indirect EA are creating exports that enhance the national wealth and also the impact on entrepreneurial activity in the economy. The SMEs should use the loan to get benefit and to generate positive externalities.

2.3. The Indonesian CGCs

A public fund is a crucial role in the implementation of credit guarantee for SMEs and cooperatives. Indonesian government has distributed the public funds through some channels. One of the channels is by financing the public guarantee schemes. The objective of the CGCs in Indonesia is to participate and encourage the implementation of government policy and programs in the economic sector and national development through employing the credit guarantee loan for the SMEs.

The public-owned CGCs in Indonesia consist of state-owned and regional-owned entity. The state-owned entity, which was funded by the Indonesian government, is known as Perum Jamkrindo (Jaminan Kredit Indonesia, Indonesian Credit Guarantee). The objective of Perum

Jamkrindo is to provide a guarantee for SMEs and cooperative credit programs for all sectors. The regional-owned entity, which funded by a regional/provincial government, is known as Perum Jamkrida (Perum Jaminan Kredit Daerah or Regional Credit Guarantee Corporation/RGCC). The RCGCs were created to encourage the development of the local economy by supporting financial access for SMEs as an engine of the local economy. The focus of this study is just on the Perum Jamkrindo since it is the longest and biggest public owned CGCs. Perum Jamkrindo has 21 branches that work in 21 cities in Indonesia.

The guarantee approvals for any kinds of credit are based on the accuracy and thorough considerations. The most portfolios of the state-owned CGC are from the Regional Development Banks because those banks are located in the regional area. Therefore, they will be easier to access, and they can give a quick service. Moreover, the state-owned CGC also collaborates with other banks to serve the smalls lending and the other types of credit guarantee as long as those banks have experience of working with all the types of credit guarantee products.

3. Methodology Research

A small survey in 2014 was conducted to investigate the benefits of CGS for SMEs by assessing additionality. The methodology to assess additionality is technically challenging, since we need to compare a target group of firms which had benefitted from guaranteed loans to a correct control group of companies which had not succeeded to access loan from a conventional bank (Zecchini and Ventura, 2009). Therefore, the most difficult step is to identify a correct control group that has similar characteristics to the treatment group. The small survey was conducted in a specific industry and region to get a homogeneous response. The tourism industry in Lombok Island was selected since it is one of the biggest industries in Lombok Island. In 2012, the tourism industry and trade gave the biggest contribution at 9.29% to the GRDP West Nusa Tenggara Province (BPS of West Nusa Tenggara Province, 2014).

The respondents, who were the client of Perum Jamkrindo of NTB branch office, were split become a treatment group (guarantee users) and a control group (non-users). Perum Jamkrindo of NTB branch office provided the list of their total SME clients in Lombok Island (137,944 SME clients). The sample of 305 clients was chosen to represent the selected population (12,544 SME clients from tourism industry). Then, 50 respondents were the control group that failed to access the guaranteed loan. The researchers received usable responses from 149 respondents; 109 respondents were the treatment group and 40 respondents were the control group.

The formulation of the survey instrument was adopted from Boocock and Shariff (2005). The interviews with the respondents were done by using a close/open-ended questionnaire. We calculated the baseline FA based on the formula employed in NERA (reported in Boocock and Shariff, 2005). Then a logistic regression was employed to predict the effect of parameters on additionality (financial additionality) of credit guarantee. The logistic regression model created a dichotomous dependent variable, by setting equal to 1 (and zero otherwise) if the respondent able gets FA from guaranteed loans. Some questionnaire responses were used to reinforce the finding of FA. Those responses related to a question that “if the guaranteed loan from Perum Jamkrindo had not been available, would you still have been able to extend the loan from other sources?” and “would the absence of the guaranteed loan from Perum Jamkrindo have had any impact on the development of your business?”

In addition, to strengthen the result, an in-depth interview with some key informants, such as CGC director and lender (bank), were conducted as well. This interview was carried out

to explore the social dimension of the lending relationships between lenders and borrowers in the successfulness of the implementation of credit guarantee schemes.

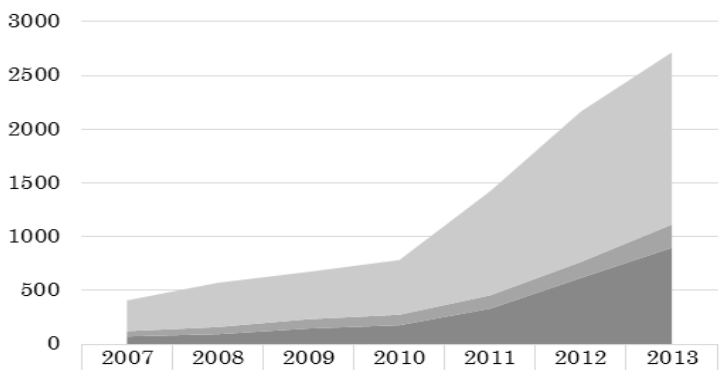
4. Research Result and Discussion

4.1. Guarantee fee, claim cost and operating cost of guarantee schemes

The guarantors set up a fee for the guarantee in order to cover the claim and operating costs. The fee can be paid in many methods, some are paid on the percentage of the total loan and some only on the specific amount. Levitsky (1997) argued that the fee can be referred to the registration fee for processing a guarantee application and annual fee. He stated that the acceptable level of a guarantee fee in developing countries was at 1 percent of the loan amount and for the annual fee around 2 percent of the guarantee. The high guarantee fee will prevent borrowers and lender to use the scheme. If the guarantee fee is not enough to cover total guarantee costs, it can reduce the capital of guarantee loan and will consider a loss.

Perum Jamkrindo was able to meet losses because the guarantee fee is always exceeding the claim payment (Figure 1). It may reflect the greater performance of the schemes and indicate the ability to sustain. In 2013, Perum Jamkrindo had to pay 0.9 trillion rupiah for related claims with the premium fee of 1.6 trillion rupiah. The level of claims tends to be increased when the value of guarantee raised. However, the increasing value of guarantee can also increase the guarantee fee. As the primary income, the guarantee fee can also cover total operating cost and pay taxes. It seems that after had been transformed many times, Perum Jamkrindo showed a significant profit.

Figure 1. Guarantee Fee, Total Operational Costs and Claims Payment of Perum Jamkrindo

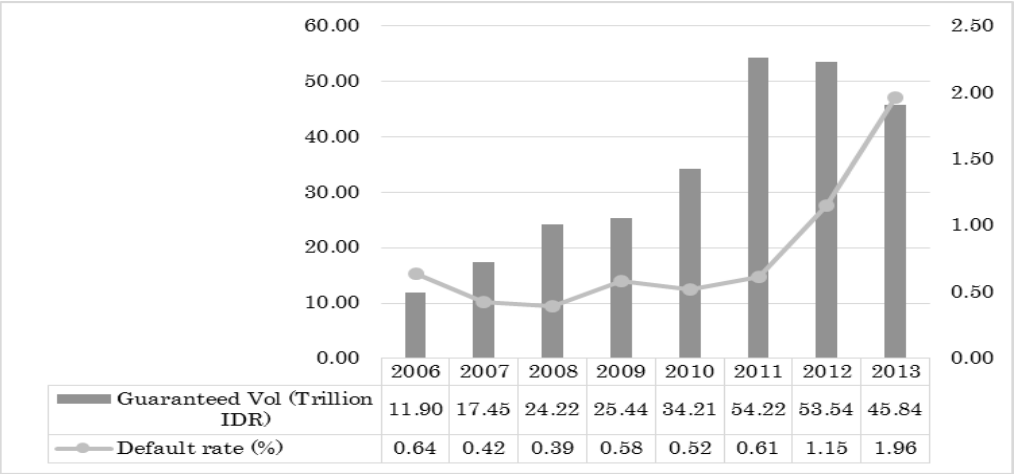


	2007	2008	2009	2010	2011	2012	2013
Fee Guarantee (Billion IDR)	286	412	440	509	969	1399	1601
Total Operating Expense (Billion IDR)	49	67	87	98	123	150	216
Claims (Billion IDR)	74	94	148	178	333	618	899

Source: Perum Jamkrindo (2014)

As Figure 2 shows, the default rate of CGS under the term of Perum Jamkrindo was lower than 3% that indicated a good operational performance of the guarantee schemes. The default rates have fluctuated from 0.39% to 1.96%. As reported by Levitsky (1997), the default rate of CGS in the first-year operation tend to be low since the borrowers will repay the loan regularly. However, in the following years, it will increase as the rise of guaranteed volume.

Figure 2. Default rate of Perum Jamkrindo



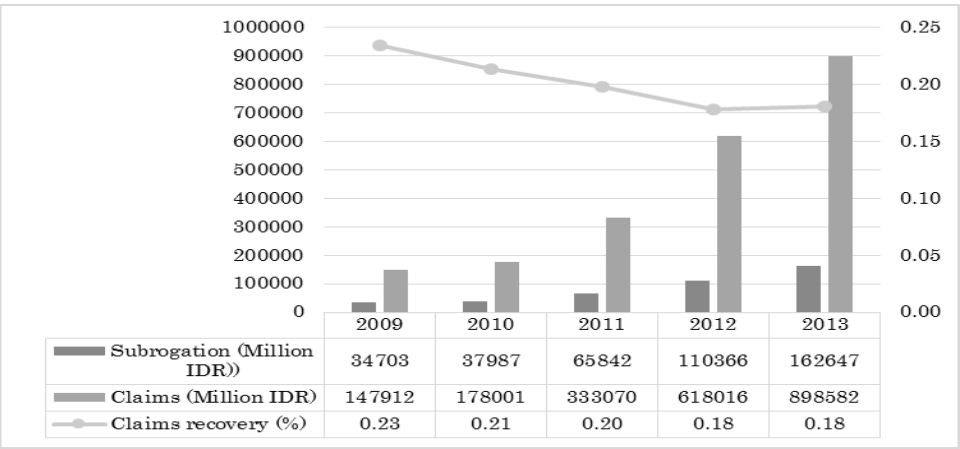
Source: Perum Jamkrindo (2014)

4.2. Claims recovery and subrogation income

Recovering the claims is a crucial variable in the sustainability of the guarantee scheme. Many developing countries have failed to handle the claims significantly. The ability to recover a claim depends on the suitable procedures and availability of experienced staff for handling the claims. The procedure of claims is related to when and how the claims would be employed.

Moreover, as depicted in Figure 3, showed that the ability of Perum Jamkrindo to recover claims was relatively small. This ability was decreased year by year. As can be seen, in 2009, Perum Jamkrindo could recover 23% of claims. Recently, in 2013, fell dramatically to 18% of claims (figure 3). The implication of this, the designing an efficient procedure for claims recovery and employing experienced staff must be considered as the most important assignment to manage well the claims recovery. As a result, it can increase the income of subrogation and raise the ability to sustain.

Figure 3. Subrogation Income, Claims Payment and Claims Recovery of Perum Jamkrindo



Source: Perum Jamkrindo (2014)

4.3. Financial Additionality

The most important parameter to measure the benefits of guaranteed loan for the SMEs is additionality of the scheme. The small survey was conducted to investigate the benefits of CGS for SMEs. The additionality was investigated from the aspect of financial and economic additionality. Financial additionality (FA) which was derived from the survey in 2014 is shown in Table 1. Perum Jamkrindo in NTB's branch office provided 24,290 million rupiah of guaranteed loans for 109 unit SMEs or 93% of total external loans (26200 million rupiahs). This value indicates that the SMEs depend on credit loan which guaranteed by a guarantee corporation to raise their capital. According to this fact, the Indonesian government has induced a lot of funds for CGCs through providing a various "credit programs" for SMEs.

A high dependency on the guaranteed loans indicates an insufficient collateral of firm to seek loans from other financial institutions (FIs) and a low awareness of other FIs to increase credit for SMEs (Boocock and Shariff, 2005). Commonly, other FIs could raise the loan if a firm could provide enough collateral, showed good performance, good prospect and well managed. Based on the survey (Table 1) indicated that other FIs are willing to give more loan until 8,565 million rupiahs rather than 1,910 million rupiahs, which then reduced FA become 67%. Levitsky (1997) stated that FA around 30-35% is created in the guarantee schemes which are designed and operated properly. While, Bannock and Partners "emphasize that not less than 60% of loans should be additional, preferably nearer 80% or even 90%" (reported in Boocock and Shariff, 2005, p. 8). This FA indicated that the CGC could help the respondent to raise their loan or had provided financial support for a majority of respondents.

Table 1. Financial additionality from the survey (in million IDR)

Industry	Loan from FIs/ other	Loan from CGC	Total Loan	Max loan from FIs/ other	Financial Additionality	
					Amount	%
Restaurant (12)	415	3850	4265	1260	3005	70
Hotel (7)	535	12245	12780	3155	9625	75
Travel (14)	370	1750	2120	1450	670	32
Art Shop (53)	520	4850	5370	2050	3320	62
Craft (23)	70	1595	1665	650	1015	61
Total (109)	1910	24290	26200	8565	17635	67

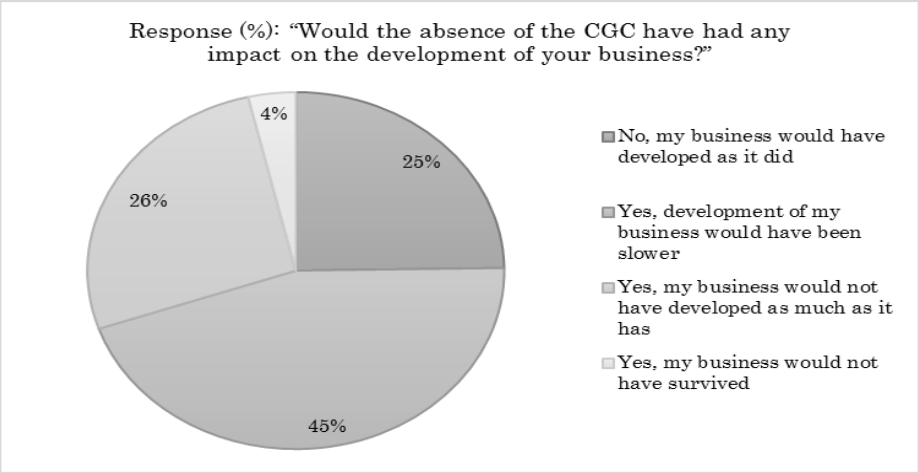
Source: Survey in 2014

A logistic regression was employed to estimate the effect of some parameters on the outcome variables (financial additionality). The number of the employees, loan size and age of owner showed a significant impact on the ability of respondents to raise their loan under the guarantee scheme (FA). The number of employees and loan size showed a positive impact, while the age of owner has a negative impact on the FA. These variables will be used as a meaningful assessment to approve a loan.

The investigation of the guaranteed loan impact on the business development has been carried out to know whether the guaranteed loan indicated the real additionality of CGC (Figure 4). About 71% of the total respondent (109) answered that their business would have increased slower or would not have grown as much as it has without a guaranteed loan. Even though they

could run their business, but they would have less ability to develop their business significantly. While, 4% of respondents could not have survived since they could not access any financing sources. Then 25% of respondents could raise their business without a guaranteed loan since they have an alternative funding source, and most of them get the loan from their family, private financial institutions, and local money lenders.

Figure 4. The impact of the guaranteed loan on the business development



Source: Survey in 2014

The guaranteed loans have a crucial impact on the business growth of the SMEs. On September 2014, we interviewed a crafts businessman in Banyumulek village. His story gives a useful insight into the impact of guaranteed loan on the business growth. He said that in the craft industry, the production and sales growth depend on the tourist visitor from both domestic and other countries. The domestic tourists, who bought his product for a small amount, are his regular customers. He said that he could just survive in the business by selling the crafts for the domestic tourists. Nevertheless, if he wants to develop his business significantly, he has to sell the high-quality products that can be exported to other countries. Therefore, he will require a significant amount of capital for providing those products. He mentioned that the commercial banks are his main financial sources to raise his capital and this time he got a loan from Bank BPD, which is one of the partner banks of Perum Jamkrindo. Using that loan, he ordered the craft products and resold it to a customer from other countries, then it could increase sale and get significant profit for encouraging his business. On the other hand, as he stated that the loans from other sources, such as cooperatives and local money lenders, was not big enough for providing the craft products to be exported. Moreover, he mentioned that the loans from the local money lenders have the highest interest rate that could reduce the expected profit for his business. This story indicated that the loan from a commercial bank, which guaranteed by Perum Jamkrindo, has a crucial impact on the business growth. Despite the fact that the need of enough collateral is still mandatory.

4.3.1. Ability to get the Guaranteed Loan

The loan from a commercial bank, which guaranteed by Perum Jamkrindo, is the primary financial sources for the SMEs. The existence of the guaranteed loan seems to be crucial for the

SMEs to raise their capital. However, most respondents still faced a difficulties to get the loan cause of a lack of collateral. Providing an enough collateral is almost mandatory for the borrowers to get a guaranteed loan. Since the CGS is a risky business, "some schemes force borrowers to pledge all available assets to secure conventional loans, leaving the guarantees to support the clean loans" (Boocock and Shariff, 2005).

The owner of a pearl art shop in Mataram city mentioned that the loan from a commercial bank has a significant role since she only has a limited capital to run her business. According to her, she failed to get the loan because she could not provide enough collateral and had not had a financial record. However, after fulfilled the compulsory requirements, she finally could get the loan from the bank. It indicates that Perum Jamkrindo still could not meet its primary objective to provide credit access for eligible SMEs but do not have enough collateral. Therefore, the role of CGC to ease the difficulties of obtaining loans showed doubt. It implicated that the CGCs in Indonesia failed to be an intermediary function between the lender and borrower. They are not operating on the usual policy guarantee schemes but taking a part in the bank credit supplementary services by applying the banks mechanism for running the small lending.

4.3.2. Reasons for applying the Guaranteed Loan

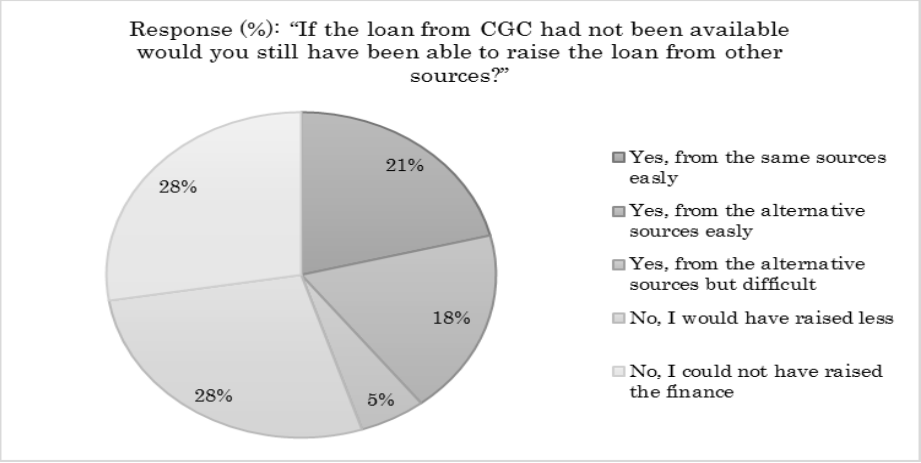
FA can be influenced by some parameters of guarantee schemes, such as the interest rate charged by the commercial banks, collateral and so on (Cusmano, 2013; Gibb, 2000). Some questions were set to investigate the reasons of the borrowers to choose the loan from a commercial bank which guaranteed by Perum Jamkrindo. The reason of the most respondents for looking a capital loan from the commercial banks, which guaranteed by CGC, was lower interest rate. The interest rate charged by the banks was lower than other financial institutions. While, the lack of collateral was not the reason for respondent for taking out a loan because providing enough collateral was almost compulsory. The other reason for choosing the guaranteed loan was easy to apply through commercial bank and other financial institutions, such as cooperatives.

4.3.3. Alternative Financial Sources

There are various types of external financial sources for the SMEs; however, the lack of collateral hinder the access of the SMEs to those sources. The ability of the SMEs to raise the loan from external sources has been sought in the interview with the respondents (Figure 5). Perum Jamkrindo as the stated-owned credit guarantee corporation in Indonesia has high enough finance additionality for the SMEs since there are only a limited proportion of alternative financial sources that are available for them. Most respondents answered that they could not raise the loan without the existence of the guarantee loans (77%). Then, the rest of respondents (23%) have accessed a loan from alternative sources, such as family and private financial institutions.

The availability of alternative financial sources is quite distributed across the respondents. However, the younger and micro enterprises have less probability of accessing a loan from alternative financial sources. This condition implies that the young and micro enterprises are the most probable to be rationed in the credit markets, then the guaranteed loans from Perum Jamkrindo are an efficient tool for supporting these businesses raise their finance.

Figure 5. The ability of the SMEs to raise the loan from other sources



Source: Survey in 2014

4.4. Economic Additionality

Based on the aspect of economic additionality, most of respondents could rise their sale and profit from 11% to 15% after they got a guaranteed loan. However, the majority of respondents (54%) could not achieve an employment growth. Then, about 45% could raise their employees from 1-10 people. There are some variables that have a positive impact on the employment level of a company. Meyer and Nagarajan (1997) reported that the employment level of a firm could be affected by some internal and external factors.

Indirect EA described through innovation (creating a new product or service, or introducing a high technology into the production or delivery process), exports and entrepreneurial activity. Only 7% of respondents had been able to export their product. It was probably due to the limited ability to introduce new technology, which proved by only 32% of respondents have attended any technical training course related to adding new technology production. The same indication also showed in the aspect of entrepreneurial activity; only limited respondents (less than 30%) had engaged in any entrepreneurial development/business management training. Therefore, it reduced the ability to improve their business performance and ability to sustain.

The condition of the craft industry in Lombok Island proved the fact that they have less ability to apply a new technology and management of the business. Most of the craft Industry in Lombok Island is home-based industries, and hand-made products are their primary product. The craft industry needs the application of technology to produce a good quality product that can be exported to other countries. However, the fact that most craftsmen in Lombok Island produce craft products by using a very simple tools. They learned their expertise from the surrounding community where they learn from one other. Then, the craftsmen delivered their knowledge along to family members. In this way, the family members, regularly, support the craftsmen to produce crafts from a very low wages and even as unpaid workers since the craftsmen handle the financial management of the company. Moreover, most the craftsmen could not access markets because of lack of sources, such as communication skill, adequate funding, strategic distribution channels, excellent networks and entrepreneurship. As a result, they are mostly working on deadline orders from traders and wholesaler and sell their products at the local price. Then, the wholesaler enjoys a significant profit when he resells to domestic or international buyers.

4.5. Importance of Social Collateral

The local money lending is a method for dealing with imperfect information in segmented financial market (Grootaert and Bastelaer, 2002). The money lender have an adequate information about the creditworthiness of the borrowers because the long-term relationship between the lenders and borrowers. Therefore, the lenders can separate out the high-risk and low-risk borrowers, then they can set up the interest rate for the borrowers personally. The lending relationships between lenders and borrowers are a long-term nature that on an arrangement of personal interactions with the borrowers and families. This such relationships describe a kind of hierarchical social interactions of the vertical dimensions of social capital (Coleman, 1998). This insight is very important to identify the social factors that guarantee high repayment rates. However, Bastelaer argued that the role of vertical relationships between lenders and borrowers in the successfulness of lending programs has not been examined properly (reported in Ito, 2010). In addition, Ito (2010) argued that commercial banks, moneylenders, and other financial institutions implicate a vertical social structure between these institutions or as an individual and their clients.

The fact was found in this study that commercial banks and local moneylenders showed a social relationship with their clients. The local moneylenders, known as rentenir, are one of the common feature of informal financial sources for the small entrepreneur in Lombok Island. These financial sources are often the only source of credit available for the small entrepreneur in developing countries. The loans are reached quickly, for short period, and at interest rate level that are really high in comparison with other lenders. This lender has a long relationship with the borrowers and their families that could be act as a social capital to approve a loan for them. The rentenirs charge a very high interest-rate, almost 14% per month, for small lending. Nevertheless, many SMEs use this financial source to get a loan since it is easier to access, and the repayment methods can be set based on their need. The respondents who got the loan from a rentenir did not fell difficult to pay the high-interest rate as long as they can get the loans to run their business.

The story of the crafts businessman in Banyumulek village provided a good example of the phenomena why he used a rentenir as his financial source. He said that the rentenir's loan was much better for him since the repayment method was appropriate for his business features. In the craft industry, he sometimes gets a big order from a customer and needs a significant amount of capital to meet the order. Therefore, an easy and quick financial access is required to deal with that order. Further, he said that there were some craft businessmen that were going bankrupt since they used a bank's loan to raise their capital. They were able to repay the loan in the some first years, and then they would face otherwise in the rest of the period. On the other hand, for the other some craft businessmen, who used a rentenir's loan, would tend to survive in the business. They could repay all the loan soon after they got the payment from the customer. It proved the ability to repay the loan was related to the income flows of the borrowers. Therefore, Perum Jamkrindo has to consider to design an appropriate mechanism and repayment method for guaranteeing the small lending. An industry based mechanism seems to be a great choice to guarantee a loan for the SMEs since this mechanism will be designed specifically based on the industry characteristics.

The importance of the social capital existence also showed in the lender-borrower relationship of the guarantee scheme. Berger and Undell (2001) argued that the lenders seems to put a relationship lending as one of the most effective way to overcome information problems in the small firm lending. Further, he stated that:

"Under relationship lending, banks acquire information over time through a contact with the firm, its owner, and its local community on a variety of dimensions and use this information in their decisions about availability and terms of credit to the firm" (Berger and Undell, 2001:1)

The survey results indicated that many respondents felt secure to get the guaranteed loans because they had a relationship with a bank's officer. Even though, they had enough collateral, if they did not have any bank's relation and a good track record, they would find a difficulty to access the loans. The story of a pearl businessman in Mataram city described his history for applying credit from a participant bank of Perum Jamkrindo. He obtained a credit loan because he had a connection with a bank's credit officers. The officer offered him a "credit program known as KUR (Kredit Usaha Rakyat)" that guaranteed by Perum Jamkrindo. He said that the bank offered a KUR's loan without any complicated requirements, and the bank gave a good assistance to provide a financial record. This condition usually happens when the borrowers have a good relationship with a bank's credit officer. The bank knew the borrower very well about his business and believed that he can pay back the loan. By this trust from a lender, a borrower will more persuade to repay the loan properly.

By the relationship lending, the lender (bank officer) and the borrower try to get their desired goal by applying the appropriate actions for encouraging the performance of repayment rates. As stated in Ito (2010) that "the current debate suggests that we ought to consider as positive social capital any number of social features that characterize successful microfinance programs. This fact gives a good insight about the role of social factors that can lead to the performance of repayment rates, since it will influence the sustainability of a lending program. Therefore, it will need more study to identify the positive and negative social factors that can be used as a consideration to design an effective mechanism for approving loan application.

5. Conclusion and Recommendation

5.1. Conclusion

This study reported that the operation of guarantee schemes by Perum Jamkrindo are efficient due to the ability to cover all costs (claims and total operating costs) by income from guarantee operation (guarantee fee). It indicates an ability to create profit. The default rate and the claim payments of Perum Jamkrindo showed an increasing trend. However, the level of default rate was at the acceptable level since it is lower than international standard at 2 - 3 percent. The recovery of claims only 20%, which was relatively small. It implicates that Perum Jamkrindo have to manage claim' recovery by employing appropriate recovery procedure and experienced staffs.

Financial additionality (FA) and economic additionality (EA) were measured to describe the benefit of guaranteed loan to small and micro enterprises (SMEs). The survey responses show a meaningful assessment of additionality. FA is in the modesty level, and there have been some parameters that have a significant impact on FA, such as the number of employees, the age of the owner and the loan size. Consideration of direct and indirect EA, guarantee loans give some positive outcomes. Guaranteed loans could increase sales and profits of SMEs between 11%-15%, however, could not raise employments significantly. The limited ability of SMEs to introduce new technology, as well as entrepreneurial activity, reduce the ability to manage their business and the opportunity to export their product.

The lower interest rate and easy applications are the main reasons for SMEs to apply credit loan which guaranteed by CGC. However, the objective of CGCs to ease the difficulties of SMEs to access the loan from a commercial bank due to collateral problems has failed to meet. Commercial banks incur the availability of enough collateral and other requirements for achieving a secure loan. Guarantee Corporation in Indonesia were still not operating the guarantee scheme in the good way as a real guarantor of the loans provided for the SMEs, but involved in bank credit supplementary services. Therefore, the CGCs in Indonesia have to consider their mechanism to approve guarantee loan for the SMEs in order to achieve their objective to support the SMEs's development. An industry based mechanism seems to be a great choice to guarantee a loan for an SME since this mechanism will be designed specifically based on the industry characteristics.

5.2. Recommendation

The Indonesian CGCs should re-orientate their target group of SMEs by developing their product based on a particular sector, regions or target groups. The CGC should regularly check the bank internal procedures and documentation since the CGC in Indonesia tends to trust banks blindly. The CGC should be socialized their product to the public, in particular, SMEs, about bank loan guarantee. If the SMEs are not adequately informed about the availability of these facilities, they will hardly demand it. The CGC should settle the claims quickly by designing a properly recovery mechanism and employing experienced staff.

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