

THE ROLE OF BANKS IN THE DEVELOPMENT OF MICRO, SMALL AND MEDIUM IN INDONESIA IN DEALING WITH FREE TRADE ERA

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ABSTRACT

Development of Small and Medium Enterprises (MSMEs) in the face of free market must be based on the hard effort and continuous in making MSMEs as a tough business. Therefore MSMEs products cultivated at least have a comparative advantage, even highly expected to have a competitive advantage. Banks are financial institutions as required by the people who need funds for both consumer interests and to develop their business interests. Bank in developing its business in addition to seeking funds from the public are also distributed back to the community for a bank that has an important role for communities with a surplus of funds and a lack of funding. Especially MSMEs in developing their business in addition to funds is also in need of guidance in the management of MSMEs so that management can be developed. The number of MSMEs in Indonesia should be well managed in order to compete in the era of free trade today.

KEYWORDS

Small and Medium Enterprises (MSMEs), free markets, banks, credit, comparative advantage

1. INTRODUCTION

Banking is an institution engaged in financial services. This institution other than the public is also raising money to give credit to the public good for consumption purposes or for business activities. Each institution either for-profit and non-profits always need funds in order to be able to run its activities. Without the availability of funds the organization will not be able to work well. Moreover berorintasi organizations in profit (business activities) in carrying out its activities always need funds to finance its business. These funds can be met with the company's internal resources, the injection of the owner of the company or from loans to the Bank. Especially in Small and Medium Enterprises (MSMEs) in meeting the needs of more funds to rely on loans from banks. However, to obtain a bank loan is not an easy thing for small enterprises, it was because of factors requirements to get credit. There was also Sealin not know bagaimana mendapatkan loans. That is because access to information, especially small businesses is very low. In addition there are also differences between small-scale businesses and the Bank, it adds a link that is not good between the two.

Small businesses that want to take the funds can be due immediately in the interest of the banks on the other hand it can not it is because the element requirements to obtain bank loans and convincingly What will be handed or not. However, if it is mutual trust between the two to get the credit that can be immediately fulfilled.

Given the importance of funding for efforts to kegiatan MSMEs should be made good cooperation between the Bank as a creditor institutions to MSMEs. This cooperation needs to be done so that the problems between the two sides can be overcome and mutually beneficial.

2. DISCUSSION

Toward the end of the year 2004 has been agreed by countries in Asia including Indonesia to accelerate the 2-year free trade in the Asian region. Logical consequence of this commitment is that all countries that participate in these agreements must follow the rules of the game are agreed upon in these free trade. The problem is whether we are ready to deal with these conditions?. If not / do not agree on why come. If yes, sectors and subsectors, and what commodities can be relied upon to fill in the free trade activities. Then with the classification of business activities and business qualifications such as what is likely to participate actively in these free trade. The possibility of commodities likely to be actively traded in a competitive free market that, apparently there is no choice, but which have a comparative advantage.

According to the BPS at a seminar at the State Ministry of Cooperatives and MSMEs in 2009, legal basis for SME development variable is Law No. 2006-2008. 20 year 2008 about MSMEs include:

- 1) Micro: a wealth of Rp 50 million or the results of the annual sales of Rp 300 million
- 2) Small businesses: have a net worth > Rp 50 million to Rp 500 million or the results of annual sale > Rp 300 million until Rp.2.5 billion
- 3) Efforts to medium; have a net worth > Rp 500 million until the premises Rp 10 billion - or the sale > Rp 2.5million to Rp50 billion

Table 1. legal basis for SME development variable

	Business unit		Growth		
	2006	2008	2006-2008	Average annual	
Enterprise	Micro enterprise	48,101,868	50,697,659	5.40%	2.66%
		98.60%	98.58%		
	Small	472,602	520,221	10.08%	4.92%
		0.97%	1.01%		
	Medium	36,763	39,657	7.87%	3.86%
		0.08%	0.08%		
	MSMEs	48,611,233	51,257,537	5.44%	2.69%
		99.65%	99.66%		
	Big	4,577	4,372	-4.48%	-2.27%
		0.01%	0.01%		
	Enterprise	48,615,810	51,261,909	5.44%	2.69%
	total	99.66%	99.67%		
Public Service Unit	167,733	167,929	0.12%	0.06%	
	0.34%	0.33%			
Total	48,783,543	51,429,838	5.42%	2.68%	
	100.00%	100.00%			

Based on these data we can clearly see how great the potential for MSMEs in Indonesia is very big that is more than 99%. Thus, it is not surprising if many banks in Indonesia began to turn to the MSMEs market. If the MSMEs sector is not immediately noticed by the government and the banks concerned about MSMEs in Indonesia will experience a decline in both quality and quantity of product produced. Even MSMEs can also ceased to operate and ultimately poverty rate for more.

Need to watch out for the possibility of several critical issues that often hinder a country's economic growth, including: (1) high unemployment, (2) low investment, and (3) the high economic cost. The issue of high unemployment and high cost economy is the issue of old and classic that had not been able to overcome with good (Suhendar Sulaeman, 2004). Then the issue of low investment is the product of lack of investor confidence in the Indonesian economy, including politics and security issues. Critical issue is the possibility of impact on Indonesia's economic activities in the future.

The experience of Indonesia for thirty years, providing information and at the same time a valuable lesson for us, that in the past was the collapse of the Indonesian economy as a result of the weakness of government decision-makers in Indonesia at that time in responding to critical issues, such as has been mentioned above. At the time of Indonesia's economy relies only on a few large-scale businesses (conglomerate). Therefore, fast response and precise, especially by the government on critical issues that always haunt the economic activity, will be very beneficial to the possibility of resistance and the Indonesian economy and security in the future.

Thus, the government policy to provide equal opportunity to micro small businesses and medium enterprises (MSMEs) to grow and progress in accordance with the capacities and capabilities, is something very precious for survival and security of the Indonesian economy in the future. This means that MSMEs must be able to grow

well, so the problem of unemployment, low interest investment and high economic costs can be reduced substantially.

The term free trade is identical with the trade relations between member states and non-member countries. In the implementation of free trade must take into account several aspects that affect the start by examining the trading mechanism, the central principle of comparative advantage (comparative advantage), and the pros and cons in the field of tariffs and quotas, and see how different types of currency (or foreign exchange) trading based on the exchange rate of foreign currencies. ASEAN Free Trade Area (AFTA) is the ASEAN free trade area where there are no tariff barriers (import duties 0-5%) and non-tariff barriers for the member countries of ASEAN, the AFTA-CEPT scheme.

As an example of AFTA membership is as follows, Vietnamese shoes sold to Thailand, Thailand to Indonesia to sell the radio, and Indonesia to complete the circle by selling skins to Vietnam. Through specialized field of business, each nation will consume more than their own that can be produced. But the concept that there is no trade tariff barriers (import duties 0-5%) and non-tariff barriers for countries - countries of ASEAN through the AFTA-CEPT scheme. Common Effective Preferential Tariff Scheme (CEPT) is the stage of the program and the elimination of tariff reduction of non-tariff barriers mutually agreed by the ASEAN countries. So in the conduct of trade among members of the operational costs can be reduced so profitable.

Manggara Tambunan (2004) mentioned that, one valuable lesson to be drawn are that: (1) Indonesian economy can not rely solely on the role of big business, (2) Micro Small and Medium Enterprises (MSMEs) have better resistance than large businesses because MSMEs more efficient and (3) until now there has been no clear industrial policy adopted and how to be more capable of accelerating economic growth and job creation for the unemployment and poverty.

2.1. Problems MSMEs

Every business must have a problem with obstacles in developing their business activities. Obstacles to develop the business of each company will vary from one business to another business, but in general the common barriers to MSMEs include lack of management skills, lack of ability to control the use of funds, lack of ability to make plans and capital for development. As in *Inspirational Compass* (18/7/08) There are several factors inhibiting the development of MSMEs (Micro, Small and Medium Enterprises), among others lack of capital, lack of management skills and mental problems. These constraints can be overcome expected synergies via compact various parties, both government and private sectors.

1. Lack of Capital.

Frequent complaints by SMEs is the lack of capital to expand its business, although the demand for their business increased because it is constrained funds are often not able to meet demand. This is because the ability to obtain information regarding the procedures to obtain the funds and do not know much *keterbasan* ability in making proposals to get funding.

2. Managerial ability is low Most small-scale business in running the business without any planning, control and evaluation activities as well. Business activities without a plan as an important business could be a way, without anticipating obstacles, threats that will occur in these business activities and also in the use of funds.

2.2. Banks functions

Banks have an important role in supporting the activities of the business world. Especially for companies and individuals who need capital in order to develop the business. In addition it also as a place to save money is safer than stored in the company and will also get the added advantage of interest. Therefore a bank that collects funds from the public, it is also obliged to provide funds in ways that best serve the public interest in addition to the interests of the owner's funds (Hashim, 1987, 3). Objectivity and wisdom needed to allocate funds because there is a high risk if the allocated one. It can cause a credit crunch that brought the impact of very large losses.

The use of banking funds channeled to the majority of credit with the bank's credit ratings will get the benefit of interest. According to Dahlan (1999, 107) use of funds for this credit reaches 70-80% of the volume of bank business. This itumenunjukan that the funds collected by the bank largely channeled to the public in the form of credit. Outstanding loans is more and more funds should dikatakan productive to the interests of the community who need funds to expand its business and consumer interests. However, with growing credit will also carry a high risk if the borrowers are not able to membanyak installment or interest. For that the Bank needs to do a good cooperation between the bank customer dengan especially for MSMEs customers.

Understanding Credit Credit In Latin called "credere" which means to believe. It means believing in the lender received a loan, that loan would be returned disalurkannya appropriate agreement. On the distribution of funds (landing of funds), credit is the financing of income-generating potential than other income alternatives.

As for the credit recipient is accepting the trust, which has an obligation to repay the loan in accordance with the time period. consequences for banks and borrowers are about things like the following:

- a. Provision of money
Credit will happen if an institution that provides money to lend in this case is a banking institution. This institution is an institution that collects funds from the community and disbursed loans to communities to meet the funding needs for both business development interests or consumer interests.
- b. Loan repayment obligations
For the debtor or the borrower has an obligation to return the debt to the creditor a certain amount in accordance with the provisions that have been determined and agreed upon both parties.
- c. Loan repayment period
Period of time to repay the loan depends on the agreement between the debtor with the creditor. Term loans can be categorized into three namely:
 1. Short-term credit (Short term-loan)
Short-term credit is a loan repayment period of less than one year. For example credit for the smooth operation of corporate finance including working capital loans.
 2. Medium-term credit (medium term loan)
Medium-term credit is a loan repayment period between 1 to 3 years. Usually these loans to increase working capital to finance the procurement of such raw materials. Medium-term credit can also be in the form of investment.
 3. Long-term Credit (Long term loan)
Long-term credit is a loan repayment period or maturity exceeding 3 years, such as investment credit is a credit to finance a project, expansion or rehabilitation.
- d. Payment of interest or result
Services to be paid by the debtor as users of credit services to creditors may be of interest or for the results obtained by the debtor. The amount of interest paid by the debtor are subject to agreement of both parties.
- e. Credit Agreement
This credit agreement is to bind both parties to carry out duties in accordance with the agreement.

2.3. Purpose and Use of Credit Granting

Credit can be distinguished according to the purpose of:

- a. Commercial loans
Commercial credit is given credit to facilitate the customer's business activities in the field of trade. This commercial loans include: supplier credit, credit for retail businesses, etc. export credit.
- b. Consumer loans
Consumer credit is credit provided by banks to meet the needs of debtor who is consumptive. Therefore, these loans for borrowers are not used as working capital to gain profit but is used solely to purchase goods or other needs such as buying property (house), cars, and various other consumer goods.
- c. Productive loans
Credit productive credit provided by banks in order to finance working capital needs of the debtor so as to facilitate the production of raw materials such as a purchase, payment of wages, cost of packaging, marketing and distribution costs and so on.

The classification of loans according to their use consists of:

- a. Working capital loans
Working capital loans are loans granted by banks to increase the debtor's working capital.
- b. Credit investment
Investment credit is the credit provided by banks to companies to use to make investments by buying capital goods.

2.4. Role of Banks in Developing MSMEs

Banking institutions have an important role for every company well to meet the needs of capital or funds to support business activities, also has an important role for the company especially for small companies or small businesses. Small businesses have one less orderliness weaknesses in the recording and weak in management. This weakness could have an impact on the use of corporate funds out of control. To avoid wasteful use can use to control the use of funds is to save money in the bank. Any money put into the bank immediately before use so little use of money can be controlled in its use. For banking institutions to mutually benefit both parties, the

bank can help the parties to conduct training in a good recording, so the funds can be controlled and can create cash plans that impact small businesses can make plans for development. With the guidance and training of the bank to SMEs will be able to get actors to MSMEs and orderly administration of this can be used to convince parties to provide credit banks.

As in Kompas (15 / 7 2008) based statistics, there are more than 48 million micro entrepreneurs in Indonesia. But until the end of 2007, only 18 million of whom are touched by the financial institution, including banks. While the rest are approximately 30 million micro entrepreneurs have not bankable. In addition the Bank also collaborated with another institution for example with educational institutions or public institutions engaged in education and training for SMEs. With the success of small businesses in developing businesses will also automatically benefit their foster bank, said profit is smooth and interest loan payments and any funding requirements for small business development will make the selection dibinanya banks have helped.

3. CONCLUSIONS

Banks as financial institutions that provide funds to lend to the public good for consumptive purposes ataupun for business activities. While small companies or small businesses but need the funds also have to control weaknesses in the use of money and lack of planning. By looking at the weaknesses of financial institutions can help to make guidance and assistance to SMEs. Mentoring activities within the bank institutions could establish cooperation with other agencies eg education institutions in order to make assistance to SMEs to grow in developing their business. The success of small businesses that can be developed may also be of benefit to the bank that is one of smoothness and interest mortgage payment. In the era of free trade, then each state is required to make innovation both on the quality and quantity of product in order to remain competitive with other countries.

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