
ANALYSIS OF FACTORS AFFECTING CREDIT ALLOCATION TO MSMES (A Case Study of PT. Bank Pembangunan Daerah Jawa Timur Tbk.)

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Abstract

Banks play an important role in supporting economic growth through their intermediation function, namely collecting funds from the public and redistributing them in the form of credit. One of the sectors that highly depends on bank financing is Micro, Small, and Medium Enterprises (MSMEs), which significantly contribute to the national economy. However, MSMEs still face various obstacles in accessing financing, making it important to analyze the factors influencing credit distribution to this sector. This study aims to examine the influence of internal and external banking factors on MSME credit distribution at PT Bank Pembangunan Daerah Jawa Timur Tbk. The independent variables used in this study are Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), Third Party Funds (DPK), Operating Expenses to Operating Income (BOPO), Return on Assets (ROA), and inflation, while the dependent variable is MSME credit distribution. This research employs a quantitative approach using multiple linear regression analysis on monthly data from 2020–2024 obtained from published financial statements and official macroeconomic data. The results show that simultaneously all independent variables significantly influence MSME credit distribution. However, partially only Non Performing Loans (NPL) have a negative and significant effect on MSME credit distribution. These findings indicate that credit quality is the main determinant in bank lending policies. Therefore, strengthening credit risk management is essential to maintain the sustainability of MSME financing and banking system stability.

Keywords: MSME credit; banking; non-performing loans; bank performance; inflation

INTRODUCTION

Banks are financial institutions that play a vital role in a country's economic system. Their primary function is to collect funds from the public in the form of deposits and channel them back to the public in the form of credit or financing. This function is known as banking intermediation, connecting those with excess funds with those in need for productive activities. If this intermediation function is well-functioning, all parties involved will benefit: the bank as a financial institution, the public as fund owners, and businesses as fund users. Thus, banking plays a significant role in driving economic growth and increasing community economic activity. According to Suseno and Abdullah (2004), the success of the

banking system in carrying out its intermediation function will positively impact financial system stability and overall economic growth. Banks' primary income generally comes from interest on loans granted to debtors and fee-based income earned from various banking services. Credit distribution is one of the key activities that determine bank performance and profitability. According to Bank Indonesia data (2024), bank credit distribution in Indonesia experienced 13.09 percent annual growth year-on-year, the highest growth rate in the last five years. This increase indicates that the banking sector continues to strive to increase credit distribution to the public to support national economic activity and maintain the stability of



financial sector growth.(Ridha et al., 2023)

The Covid-19 pandemic had a significant impact on various economic sectors, including the banking sector and small and medium enterprises (SMEs). Restrictions on economic activity during the pandemic caused many businesses to experience reduced revenue and even closure. This situation also impacted the banking sector due to increased credit risk and reduced borrowers' ability to meet their loan obligations. However, with the implementation of the mass vaccination program and national economic recovery policies, economic activity has gradually begun to recover. In this economic recovery process, the banking sector plays a crucial role in providing financing for the public and businesses. Credit distribution by banks is expected to increase production, distribution, and consumption activities, thereby accelerating national economic recovery. Research conducted by Haqiqi and Raditya (2014) shows that the banking sector has a significant influence on Indonesia's long-term economic growth. This demonstrates the importance of banking institutions in supporting economic development activities through credit distribution to productive sectors. One sector that makes a significant contribution to the national economy is the Micro, Small, and Medium Enterprises (MSMEs) sector, which is a key driver of the Indonesian economy.(Irfan Ridha et al., 2023)

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the national economy because they create jobs and improve public welfare. According to data from the East Java Ministry of Communication and Informatics as of March 2024, the number of MSMEs in Indonesia reached approximately 64.2 million, contributing 61.07 percent to the national Gross Domestic Product, or IDR 8,573.89

trillion. Furthermore, the MSME sector absorbs approximately 97 percent of the national workforce, making it one of the sectors with the largest contribution to the national economy. Despite their enormous potential, most MSMEs still face various obstacles in developing their businesses. One of the main challenges often faced by MSMEs is limited access to financing from formal financial institutions, particularly banks. Many MSMEs lack the ability to prepare systematic financial reports and lack a grasp of modern business management. This situation results in most MSMEs being deemed unbankable and unable to meet banking requirements, thus facing difficulties in obtaining credit from banks. Furthermore, limited collateral held by MSMEs is also a factor contributing to their limited access to financing from the banking sector. Yet, adequate access to financing is essential to support business development and enhance MSME competitiveness in the increasingly competitive marketplace.(Binti & Binti, 2019)

The issue of access to financing for MSMEs is a significant concern for both the government and financial institutions. According to the Ministry of Cooperatives and MSMEs, the main obstacles faced by MSMEs encompass various aspects, including limited human resources, limited business capital, weak business management, limited technology, and limited market access. Of these obstacles, limited business capital is one of the factors that most frequently hinders the development of MSMEs. Sumodiningrat (2015) explains that one of the main obstacles faced by MSMEs in obtaining financing from banks is the relatively strict requirements, such as the obligation to have collateral or security and the obligation to prepare adequate financial reports. Furthermore, Weiss (2008) also states that MSMEs are often considered to have a higher level of

business risk compared to large companies due to limited financial information and high business failure rates. This condition causes banks to tend to be more cautious in channeling credit to the MSME sector. In Indonesia's financial system, which is still dominated by the banking sector, the role of banks is very important in providing financing for businesses, including MSMEs. Berger and Udell (2002) stated that banking has a strategic role in supporting the development of small and medium enterprises by providing adequate access to financing.(Nurbayani & Nurhidayati, 2024)

A bank's ability to disburse credit to the public is influenced not only by external economic conditions but also by the bank's internal conditions. A bank's internal condition can be seen through various financial performance indicators that reflect the bank's health. Some financial ratios frequently used to assess a bank's ability to disburse credit include the Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Third Party Funds (TPF), Return on Assets (ROA), and operational efficiency ratios such as the Operating Expenses to Operating Income (BOPO). The Capital Adequacy Ratio indicates the bank's capital capacity to cover the risk of losses that may arise from lending activities. The higher the CAR, the stronger the bank's capital, and thus the greater its ability to disburse credit to the public. Research conducted by Hartini (2023) and Puspitasari (2022) shows that CAR has a positive effect on MSME lending. Meanwhile, Non-Performing Loans are an indicator of a bank's non-performing loans. High NPL levels can increase credit risk, making banks more cautious in disbursing new loans. Research by Sari and Wibowo (2023) shows that NPL has a negative impact on MSME credit distribution.(Mewengkang et al., 2025)

In addition to internal bank factors, external factors or macroeconomic conditions can also influence credit distribution to the MSME sector. One macroeconomic indicator frequently used in research on bank credit is the inflation rate. Inflation is a condition of general and continuous increases in the prices of goods and services over a certain period. High inflation rates can reduce people's purchasing power and increase production costs for businesses, including MSMEs. This condition can affect the ability of businesses to meet credit payment obligations, causing banks to be more cautious in disbursing financing. Although various previous studies have examined the factors influencing bank credit distribution, most of these studies have focused on bank credit in general and have not specifically examined credit distribution to the MSME sector at the regional level, particularly at Regional Development Banks. Therefore, this study aims to analyze the influence of the Capital Adequacy Ratio, Non-Performing Loans, Third Party Funds, Return on Assets, BOPO, and inflation on MSME credit distribution at PT Bank Pembangunan Daerah Jawa Timur Tbk. This research is expected to provide academic contributions in the development of studies on bank credit distribution and provide input for local governments and banking institutions in increasing access to financing for MSMEs.

METHODS

This study uses a quantitative approach with a causality research design that aims to analyze the influence of internal and external factors on the distribution of credit to Micro, Small, and Medium Enterprises (MSMEs) at PT Bank Pembangunan Daerah Jawa Timur Tbk. This research is a case study of the bank using secondary data obtained from financial reports officially published by

PT Bank Pembangunan Daerah Jawa Timur Tbk. as well as macroeconomic data published by official institutions such as Bank Indonesia and the Central Statistics Agency (BPS). The data used are monthly data for the period 2020–2024, allowing this study to capture the dynamics of MSME credit distribution during that period. The dependent variable in this study is MSME credit distribution, while the independent variables include the Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Third Party Funds (DPK), Operating Expenses to Operating Income (BOPO), Return on Assets (ROA), and inflation. Data collection was carried out using documentation techniques, namely by collecting and recording data that has been published by related institutions so that the validity and reliability of the data can be accounted for.

Data analysis was conducted using descriptive analysis and multiple linear regression analysis to test the effect of independent variables on the dependent variable. Descriptive analysis was used to provide an overview of the characteristics of the research data through the average value, maximum value, minimum value, and standard deviation of each variable. Furthermore, testing the relationship between variables was carried out through a multiple linear regression model with the equation: $MSME\ Credit = \alpha + \beta_1 CAR + \beta_2 NPL + \beta_3 DPK + \beta_4 BOPO + \beta_5 ROA +$

$\beta_6 Inflation + \epsilon$. Before testing the hypothesis, the regression model was tested through a classical assumption test which includes a normality test, a multicollinearity test, an autocorrelation test, and a heteroscedasticity test to ensure that the model meets the linear regression assumptions. Hypothesis testing was conducted using the F test to determine the effect of independent variables simultaneously on MSME credit distribution and the t test to test the effect of each independent variable partially on the dependent variable at a significance level of 5 percent.

RESULT

This study aims to analyze the influence of internal and external factors on the distribution of credit to Micro, Small, and Medium Enterprises (MSMEs) at PT Bank Pembangunan Daerah Jawa Timur Tbk. during the 2020–2024 period. Data analysis was conducted using descriptive statistics and multiple linear regression analysis. Descriptive statistics are used to provide an overview of the characteristics of the research data, including the minimum, maximum, average (mean), and standard deviation values of each variable used. The data analyzed in this study amounted to 60 observations obtained from monthly data during the research period. The results of descriptive statistics for each research variable can be seen in Table 1.

Table 1. Descriptive Statistics of Research Variables

Variables	N	Minimum	Maximum	Mean	Standard Deviation
CAR	60	0.20	0.27	0.2353	0.0199
NPL	60	0.02	0.05	0.0374	0.0079
BOPO	60	0.63	0.88	0.7468	0.0989
DPK	60	0.78	0.87	0.8268	0.0293
ROA	60	0.0005	0.0027	0.0016	0.0006
Inflation	60	0.01	0.05	0.0276	0.0133
MSME Credit	60	0.18	0.31	0.2549	0.0369

Based on Table 1, it can be seen that the Capital Adequacy Ratio (CAR)

variable has an average value of 0.2353, indicating that the bank's capital

adequacy level during the study period was in a fairly good condition. The Non-Performing Loan (NPL) variable has an average value of 0.0374, indicating that the level of non-performing loans is still within a relatively controlled limit. The BOPO variable has an average value of 0.7468, indicating fluctuations in the bank's operational efficiency during the study period. Meanwhile, the Third Party Funds (TPF) variable has an average value of 0.8268, indicating the bank's ability to collect public funds is relatively stable. The Return on Assets (ROA) variable has an average value of 0.0016, indicating a relatively low level of bank profitability. The inflation variable has an

average value of 0.0276, indicating a moderate level of inflation during the study period. The MSME credit variable has an average value of 0.2549 with a standard deviation of 0.0369, which indicates that MSME credit distribution fluctuated during the research period.

Before conducting the regression analysis, the research model was first tested using a multicollinearity test to determine whether there was a strong correlation between the independent variables. The multicollinearity test was conducted by examining the tolerance value and Variance Inflation Factor (VIF). The results of the multicollinearity test can be seen in Table 2.

Table 2. Multicollinearity Test Results

Variables	Tolerance	VIF
CAR	0.432	2,314
NPL	0.521	1,918
BOPO	0.467	2,141
DPK	0.589	1,697
ROA	0.611	1,636
Inflation	0.748	1,337

Based on Table 2, it can be seen that all independent variables have a tolerance value greater than 0.10 and a VIF value less than 10. This indicates that there is no multicollinearity problem in the regression model so that the research model is suitable for further analysis.

Next, a multiple linear regression analysis was conducted to determine the effect of the independent variables on the dependent variable, namely MSME credit distribution. The results of the multiple linear regression analysis can be seen in Table 3.

Table 3. Results of Multiple Linear Regression Analysis

Variables	Regression Coefficient	t-count	Sig
Constant	-2,076	-1,892	0.063
CAR	-0.479	-1.247	0.218
NPL	-0.544	-3,462	0.001
BOPO	-0.044	-0.873	0.386
DPK	0.482	1,541	0.129
ROA	-0.002	-0.215	0.831
Inflation	-0.021	-0.674	0.503

Model Summary

R Square	Adjusted R Square	F-count	Sig F
0.412	0.356	7,324	0.000

Based on the results of the regression analysis in Table 3, the following regression equation was

obtained: MSME Credit = -2.076 – 0.479(CAR) – 0.544(NPL) – 0.044(BOPO) + 0.482(DPK) –



0.002(ROA) – 0.021(Inflation). The test results show that the Non-Performing Loan (NPL) variable has a negative and significant effect on MSME credit distribution with a significance value of 0.001 which is smaller than the significance level of 0.05. This indicates that an increase in the level of non-performing loans will reduce the bank's ability to channel credit to the MSME sector. Meanwhile, the CAR, BOPO, DPK, ROA, and inflation variables do not show a significant effect partially on MSME credit distribution. The Adjusted R Square value of 0.356 indicates that 35.6 percent of the variation in MSME credit distribution can be explained by the independent variables in the research model, while the remainder is influenced by other factors outside the research model.

DISCUSSION

The research findings indicate that Non-Performing Loans (NPL) are the only variable with a significant influence on MSME credit distribution at PT Bank Pembangunan Daerah Jawa Timur Tbk. These results confirm that credit quality is a primary determinant of MSME financing policy. From the perspective of banking intermediation theory, a bank's primary function is to channel funds from those with surplus funds to those in need of financing, while still considering the inherent risks of such activity. An increase in the level of non-performing loans reflects an increased risk of debtor default, so banks will respond to this condition by tightening their credit policy. Thus, the negative relationship between NPL and MSME credit distribution indicates that the higher the level of credit risk, the more limited the bank's ability to expand its intermediation function. Conceptually, these findings strengthen the argument that stable banking asset quality is a primary prerequisite for sustainable financing of productive sectors, particularly MSMEs,

which generally have a higher risk profile than large-scale businesses. The results of this study are also consistent with various empirical studies showing that an increase in the non-performing loan ratio encourages banks to adopt a more conservative approach in disbursing credit as a form of risk mitigation against potential losses that could disrupt bank financial stability.(Megantara, 2020)

Meanwhile, the Capital Adequacy Ratio (CAR) variable did not significantly influence MSME lending. Theoretically, capital adequacy is an indicator of a bank's ability to absorb potential losses from lending activities. Banks with higher capital ratios should have a greater capacity to expand financing due to their stronger risk absorption capacity. However, in the context of this study, the insignificant effect of CAR indicates that credit disbursement policy is not solely determined by capital capacity, but rather is influenced by credit risk management considerations. The stability of the capital ratio during the study period likely resulted in CAR variations being insufficient to significantly influence credit policy. Furthermore, the characteristics of Regional Development Banks (BPDs), which have a regional development function, often lead to credit policies being based not only on business expansion considerations but also on the principles of prudence and the stability of the regional financial system. Thus, the results of this study indicate that capital adequacy in the context of regional banks plays a more important role as an instrument of financial stability rather than as a primary driver of credit expansion.(Syahrul & Nurdin, 2021)

The Third Party Funds (TPF) variable in this study showed a positive but insignificant relationship with MSME credit distribution. Theoretically, TPF is the primary source of funds used by banks to carry out their intermediation function.

The greater the funds collected from the public, the greater the bank's potential to channel credit to the real sector. However, the results of this study indicate that an increase in funds collected does not automatically translate into an increase in MSME credit distribution. This phenomenon can be explained through the perspective of liquidity management and banking risk management. Banks not only consider the availability of funds in disbursing credit but also the quality of their existing credit portfolios and the risk conditions they face. When credit risk levels increase or economic uncertainty intensifies, banks tend to restrain credit expansion even when they have sufficient liquidity. In other words, the availability of funds is not the sole determinant of credit distribution policy; it must be considered in conjunction with risk factors and asset quality. These findings indicate that in modern banking practices, a risk-based lending approach is more dominant than an approach based solely on the availability of funds.(Wulandari et al., 2021)

The study also showed that BOPO and ROA did not significantly influence MSME lending. BOPO represents a bank's operational efficiency, while ROA reflects a bank's ability to generate profits from its assets. Theoretically, more efficient and profitable banks should have a greater capacity to expand intermediation activities. However, the insignificance of these two variables indicates that operational efficiency and profitability are not the primary determinants of MSME lending policies at regional banks. This indicates that lending decisions are more influenced by credit risk assessments and debtor quality than by the bank's operational performance. In other words, increased efficiency and profitability do not automatically encourage credit expansion if the bank assesses that credit risk in a

particular sector remains relatively high. This finding reinforces the view that in a stability-oriented banking system, risk management plays a more dominant role than short-term financial performance indicators.(Nadialista Kurniawan, 2021)

In terms of external factors, this study found that inflation did not significantly influence MSME credit distribution. Macroeconomically, inflation is often associated with changes in purchasing power, production costs, and price stability, which can affect debtors' ability to meet their credit obligations. High inflation can increase economic uncertainty, potentially reducing credit demand and increasing the risk of default. However, the results of this study indicate that inflation did not significantly influence MSME credit distribution policies. This may be due to relatively controlled inflation during the study period, thus not putting significant pressure on banking activities. Furthermore, banks are generally more responsive to internal risk indicators such as credit quality than to external macroeconomic variables that cannot be directly controlled by banks. Thus, these findings indicate that, in the context of this study, the dynamics of MSME credit distribution are more influenced by internal banking conditions than by fluctuations in macroeconomic indicators.(Ridha et al., 2023)

Overall, the results of this study indicate that credit quality is a key factor determining the sustainability of MSME credit distribution, while other factors such as capital adequacy, liquidity, operational efficiency, profitability, and inflation have not yet become primary determinants. This finding implies that MSME financing development strategies depend not only on increasing capital capacity or fundraising, but also heavily on the effectiveness of the credit risk management system implemented by banks. In other words, efforts to expand

financing access for MSMEs need to be balanced with improvements in the quality of credit analysis, strengthening credit monitoring systems, and more comprehensive risk management. This approach is crucial to ensure that credit expansion to the MSME sector can continue without compromising banking financial stability.

CONCLUSION

Based on the results of the analysis and discussion of research on factors that influence the distribution of MSME credit at PT Bank Pembangunan Daerah Jawa Timur Tbk., it can be concluded that simultaneously the variables of Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), Operating Costs to Operating Income (BOPO), Third Party Funds (DPK), Return on Assets (ROA), and inflation have a significant effect on the distribution of MSME credit. However, partially, only the Non-Performing Loan (NPL) variable is proven to have a negative and significant effect on the distribution of MSME credit, which indicates that an increase in the level of non-performing loans will reduce the bank's ability to channel credit to the MSME sector. Meanwhile, the variables CAR, BOPO, DPK, ROA, and inflation did not show a significant effect on the

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distribution of MSME credit during the research period. This finding confirms that credit quality is the most determining factor in credit distribution policies in regional banking, so that credit risk management is an important aspect in maintaining the sustainability of the bank's intermediation function and the stability of the MSME financing portfolio.

Future research is recommended to expand the scope of the research object by involving more banks, both Regional Development Banks and national commercial banks, so that the research results can have a broader level of generalization. Furthermore, future research can add other variables that have the potential to influence MSME credit distribution, such as interest rates, economic growth, exchange rates, government policies related to MSME financing, and the characteristics of MSME debtors. The use of more comprehensive analytical methods such as panel data regression, a dynamic time-series approach, or more complex econometric models is also recommended to be able to capture the relationships between variables in more depth and provide a more comprehensive understanding of the factors influencing MSME credit distribution.

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