

## MICROCREDIT AND UMKM EMPOWERMENT: A POLICY ANALYSIS BASED ON RECENT LITERATURE

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### Abstract

This study aims to analyse microcredit policy and its role in empowering Micro, Small and Medium Enterprises (MSMEs) based on recent literature. Microcredit has been recognised as an important instrument to improve access to finance for MSMEs that are often excluded from conventional banking services. This study reviews the impact of microcredit on MSME development, including the improvement of working capital, business expansion, and productivity and competitiveness. In addition to the benefits, the research also highlights the challenges in implementing microcredit policies, such as the risk of bad debts, low financial literacy, and limited infrastructure. In conclusion, more holistic and integrated policies involving synergies between the government, financial institutions, and non-governmental organisations are needed to create a sustainable MSME empowerment ecosystem.

**Keywords:** Microcredit, MSME Empowerment.

### Introduction

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economy of many countries, especially in developing countries. According to data from the Ministry of Cooperatives and Small and Medium Enterprises, MSMEs in Indonesia contribute more than 60% to the Gross Domestic Product (GDP) and absorb around 97% of the workforce in Indonesia. However, despite their significant role, MSMEs often face various challenges that hinder their growth and development. One of the main challenges is limited access to finance (Paswan & Jha, 2023).. Most MSMEs struggle to obtain loans from formal financial institutions due to complicated requirements and strict credit criteria. Many of these businesses do not have the collateral or valuable assets typically required to secure a loan, and often face high interest rates that are difficult to meet. These limitations make it difficult for MSMEs to expand, invest in new technologies, or manage their cash flows effectively. (Mardika, 2021).

In addition to financing issues, MSMEs also face challenges in terms of access to markets and ability to compete. MSMEs often lack the resources and capacity to market their products effectively, both domestically and internationally. Competition with large companies that have advantages in terms of economies of scale and extensive distribution

networks often makes it difficult for MSMEs to maintain market share. (Nufus et al., 2021).. On the other hand, many MSMEs have yet to capitalise on advances in digital technology to expand their markets and operational efficiency. Other challenges faced include limitations in management knowledge, limited human resources, and regulations that can be barriers to running and growing a business (Syamsuri et al., 2021). (Syamsuri et al., 2021).

Microcredit is emerging as a potential solution to address financing issues for MSMEs. Microcredit is a financial instrument designed to provide financing to individuals or micro-enterprises that do not have access to conventional banking services. These credit schemes typically offer small loans without requiring significant collateral, enabling economically disadvantaged borrowers to finance their businesses or fulfil their daily needs. Microcredit not only helps improve the welfare of beneficiaries, but also contributes to local economic development by encouraging entrepreneurial activities and creating jobs. In addition, some microcredit programmes also come with training and business support to ensure that borrowers can better manage their finances and grow their businesses. (Ismanto et al., 2024)..

Microcredit schemes offer small loans with easier terms compared to conventional bank loans. These initiatives have been adopted in various countries with the hope of increasing financial inclusion and empowering MSMEs. However, despite the many policies that have been implemented to support microcredit, challenges remain, including high interest rates, complicated administrative procedures, and high credit risk. (Li et al., 2022).

Recent literature studies show that the effectiveness of microcredit in empowering MSMEs is still debatable. Some studies indicate that microcredit is able to increase the income and production capacity of MSMEs, while others find that these positive impacts are not always felt by all MSME actors, especially those in the informal sector with less organised management. In addition, government policies in support of microcredit are also varied and often inconsistent. Factors such as changing regulations, lack of inter-agency coordination, and limitations in policy implementation are key barriers to optimising the benefits of microcredit. (Zhang et al., 2022).

Given the important role of MSMEs and the potential of microcredit to empower this sector, it is important to analyse microcredit policies based on current literature. This study examines the effectiveness of various microcredit policies that have been implemented, identifying factors that influence the success of these policies in MSMEs through microcredit.

## **Research Methods**

The study in this research uses the literature method, which is an approach used to collect, analyse, and evaluate written sources related to a particular research topic. The main purpose of this method is to understand and synthesise existing knowledge, identify research gaps, and build a solid theoretical framework for further study. Literature research involves systematic steps such as searching academic databases, selecting relevant sources, critically reviewing existing findings, and preparing a summary or review of the literature.

Through this process, researchers can gain in-depth insights and build a solid foundation for their own research, be it in the form of qualitative or quantitative research. (Syafri & Erlina, 2018); (Alaslan, 2022); (Suyitno, 2021).

## **Results and Discussion**

### **Effective Microcredit Policy in Empowering MSMEs**

Microcredit is a small loan facility provided to individuals or micro-enterprises that usually do not have access to conventional banking services. These loans are designed to support productive economic activities and improve the welfare of beneficiaries, especially those with low incomes or no assets to use as collateral. (Prasetiono & Dina, 2020).. Microcredit is often used for business capital, growing a small business, or other immediate needs, with the hope of encouraging entrepreneurship and local economic development. In addition, institutions offering microcredit often provide additional training and support to assist borrowers in managing their businesses and finances effectively (Ismanto et al., 2020). (Ismanto et al., 2024)..

Empowerment of Micro, Small, and Medium Enterprises (MSMEs) is a series of coordinated efforts aimed at improving the capacity and sustainability of micro, small, and medium enterprises through various supports and interventions. These empowerment measures may include entrepreneurship training, access to capital, business mentoring, technical and managerial skills development, and facilitation of access to markets. (Baroroh et al., 2023).. MSME empowerment aims to overcome various obstacles faced by business actors in developing their businesses, increasing competitiveness, and contributing more to the national economy. Thus, this empowerment effort is expected to create jobs, reduce poverty, and encourage inclusive and sustainable economic growth. (purmiyati et al., 2024).

An effective microcredit policy plays a crucial role in empowering Micro, Small and Medium Enterprises (MSMEs). This policy must be designed in such a way as to address the specific needs of MSME actors who are often marginalised from access to conventional banking. One important element of an effective microcredit policy is the ease of the application process and less burdensome requirements. Banks and microfinance institutions need to provide simple and transparent procedures so that MSMEs can access funds more easily and quickly. In addition, flexible or even no collateral requirements can be a significant stimulant for businesses that do not have valuable assets to pledge. (Muhammad et al., 2024).

Another aspect that must be considered in an effective microcredit policy is competitive and affordable interest rates. Interest rates that are too high can be burdensome for MSME actors and reduce the benefits of the loans they receive. Therefore, the government or financial institutions involved need to ensure that the interest rates are within reasonable limits and do not burden the businesses. Interest subsidies from the government can also be one solution to keep interest rates low. In addition, a loan tenure that is in line with the business cycle of MSMEs will provide flexibility in loan repayment and reduce the risk of default. (Rizki & Hendarman, 2024)..

Empowering MSMEs through microcredit policies should also be accompanied by comprehensive mentoring and training programmes. Microcredit institutions should not only provide financial capital but also non-financial support such as financial management training, marketing strategies, and product quality improvement. This assistance aims to increase the capacity and skills of business owners so that they can manage their businesses better and more sustainably. With comprehensive support, MSME actors will have stronger competitiveness and be able to survive in the midst of intense market competition. (Maulana et al., 2024).

Finally, continuous evaluation and monitoring is crucial in ensuring the effectiveness of microcredit policies. The government and financial institutions need to conduct regular assessments of the performance of the microcredit provided, including its impact on the growth of beneficiary MSMEs. The results of these evaluations will help identify areas that need improvement and policy adjustments to be more responsive to the dynamic needs of MSMEs. (Afandi et al., 2023).. With a holistic and sustainable approach, microcredit policy can be an effective instrument in encouraging MSME empowerment, improving economic welfare, and creating more jobs.

### **Factors that influence the success of MSME empowerment through microcredit**

The success of empowering Micro, Small, and Medium Enterprises (MSMEs) through microcredit schemes is influenced by various factors. One of the most crucial factors is the accessibility and ease of obtaining loans. Simple application process, flexible requirements, and quick disbursement time are some of the elements that can improve microcredit accessibility for MSMEs. Banks and microfinance institutions need to ensure that lending procedures are less bureaucratic so that MSMEs, which often have limited resources, can easily access the funds needed to grow their businesses. (Meiryani et al., 2024)..

Interest rates and loan tenure are also important factors that influence the success of MSME empowerment through microcredit. Competitive and affordable interest rates will ease the burden on MSME actors in repaying loans. Conversely, interest rates that are too high can be burdensome and threaten business sustainability. In addition, loan tenors that are tailored to the MSME business cycle will provide flexibility and convenience in managing cash flow and loan repayments. For example, businesses in the agricultural sector that have longer production cycles require longer loan tenors compared to businesses in the trade sector. (Ilham, 2023).

The third factor affecting the success of MSME empowerment is the capacity and management skills of the MSME actors themselves. Many MSME actors have technical skills in running a business, but lack good managerial skills. (Budilaksono et al., 2022).. Therefore, mentoring programmes that accompany the provision of microcredit are vital. Training in financial management, marketing, human resource management, and product innovation should be provided to improve the capacity of business actors. With proper mentoring,

MSMEs will not only gain financial capital but also the knowledge and skills to manage their businesses effectively and sustainably. (Agustina & Yunita, 2024)..

Finally, government support, conducive policies, and adequate infrastructure are also critical to the success of empowering MSMEs through microcredit. The government can play a role in providing interest subsidies, offering various fiscal incentives, and creating regulations that support the growth of MSMEs. (Rizki & Hendarman, 2024).. Infrastructure such as road access, internet facilities, and adequate distribution facilities will also facilitate MSME operations. Comprehensive support from various parties, including financial institutions, government, and the community, will create a conducive ecosystem for MSMEs to grow and make a significant contribution to the national economy.

### **Microcredit Policy and Implementation in various countries**

Microcredit policy has been recognised as one of the important instruments to reduce poverty and support economic growth, especially in developing countries. Microcredit provides access to finance for groups of people who are not covered by conventional banking services, enabling them to start or expand their small businesses. One of the most well-known examples of microcredit policies is the Grameen Bank in Bangladesh, founded by Dr Muhammad Yunus. Through its group-first and unsecured approach, Grameen Bank has successfully provided loans to millions of poor people, most of whom are women, and helped them escape the cycle of poverty. (Jaman, 2024).

In India, the government has supported microcredit development through programmes such as the SHG-Bank Linkage Programme (SBLP), which links self-help groups (SHGs) with formal banks. This programme has shown significant results in increasing financial inclusion and empowering rural communities. In addition, Microfinance Institutions (MFIs) in India also play an important role in providing microloans. However, challenges such as stringent regulations and credit risk remain key concerns that need to be addressed to improve the effectiveness of microcredit programmes in the country. (Fitriah et al., 2024)..

Unlike Bangladesh and India, in the United States, microcredit is more focussed on supporting small and micro entrepreneurs who want to start or grow their businesses. Through the Small Business Administration (SBA), the government provides a microloan programme that provides loans of up to \$50,000 with low interest rates and more flexible terms than conventional commercial loans. (Gufon & Nengsih, 2023).. The programme is supported by various non-profit financial institutions that work with the SBA to provide training and business consulting to loan recipients. Despite its different scale and objectives, the implementation of microcredit in the US has had a positive impact by creating jobs and supporting local economic growth. (Akpunonu, 2021).

In Africa, several countries such as Kenya and Nigeria have adopted microcredit policies as part of their poverty alleviation and economic development strategies. In Kenya, digital platforms such as M-Pesa have revolutionised access to microcredit by allowing users to conduct financial transactions via mobile phones. Through partnerships with banks and

microfinance institutions, M-Pesa users can access microloans more easily and quickly. Meanwhile, in Nigeria, microcredit policies are focussed on the agribusiness sector with the aim of increasing the productivity and income of smallholder farmers. However, challenges such as economic instability and lack of infrastructure remain barriers to the effective implementation of microcredit programmes in some African countries. (Raj & Sasidharan, 2020).

The implementation of microcredit policies in various countries shows that with the right strategy and adequate support from governments, financial institutions, and communities, microcredit can be an effective tool to promote financial inclusion, empower communities, and support economic growth. While challenges and constraints vary from country to country, the experiences from various countries show that policy innovations and adjustments can have a significant impact in achieving these goals.

## Conclusion

Microcredit plays an important role in the empowerment of MSMEs (Micro, Small, and Medium Enterprises). In general, microcredit has been proven to improve financial access for MSMEs that are often marginalised from the conventional banking system. This helps MSMEs to invest in working capital and expand their business. Financial literacy and mentoring programmes also play a crucial role in ensuring effective utilisation of microcredit, thereby increasing the productivity and competitiveness of MSMEs in local and global markets.

However, the literature review also highlighted several challenges faced in the implementation of microcredit policies. These include the risk of non-performing loans, lack of understanding of financial management among MSME owners, and limited lending infrastructure. Therefore, a more comprehensive and integrated policy is needed that focuses not only on loan disbursement but also on improving managerial capacity and access to markets. Synergy between the government, financial institutions, and non-governmental organisations is needed to create a sustainable empowerment ecosystem for MSMEs.

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