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**THE RELATION BETWEEN MICROFINANCE CREDIT (KREDIT USAHA RAKYAT) AND THE FINANCIAL PERFORMANCE ON SMALL AND MEDIUM ENTERPRISE IN MANADO, NORTH SULAWESI**

*HUBUNGAN ANTARA KREDIT USAHA RAKYAT DAN KINERJA KEUANGAN DARI USAHA KECIL DAN MENENGAH DI MANADO SULAWESI UTARA*

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**Abstract:** Manado city's economy is largely contributed through the role of SMEs in mobilizing economic activities in various fields, capital limitations are a source of business development problems and lack of innovation in business. The government together with the cooperative service and SMEs are trying to facilitate SMEs to get microfinance credit funds. This study aimed to see whether there are differences in financial performance on the financial ratio analysis based on financial ratio, of 9 Small Medium Enterprises before and after using funds microfinance credit in Manado. Based on the results shows that the financial performance of SMEs in Manado City from the year before using microfinance credit and after using microfinance credit is changing, which is the average value of the financial ratio analysis experienced good changes. SMEs should be more effective in utilizing existing resources to generate sales, and SMEs should know the condition of the company's financial performance in their business from time to time so that the future can anticipate and quickly taking decisions for possibilities that could happen in the future, and to further improve the company's performance in the future.

**Keywords:** *microfinance credit, financial performance, small and medium enterprises.*

**Abstrak:** *Perekonomian kota Manado sebagian besar disumbang melalui peran UKM dalam menggerakkan kegiatan ekonomi diberbagai bidang, keterbatasan modal merupakan sumber permasalahan berkembangnya usaha, dan kurangnya inovasi dalam usaha. Dinas koperasi dan UKM memfasilitasi pelaku UKM dengan KUR. Penelitian ini bertujuan untuk melihat apakah terdapat perbedaan dalam kinerja keuangan pada UKM berdasarkan ratio keuangan pada 9 UKM sebelum dan sesudah menggunakan dana Kredit Usaha Rakyat (KUR) di kota Manado. Metode analisis yang digunakan dalam penelitian ini adalah qualitative descriptive. Data yang diteliti berupa laporan keuangan dari 9 UKM di Manado. Hasil penelitian menunjukkan pada kinerja keuangan UKM di kota Manado dari tahun sebelum menggunakan KUR dan sesudah menggunakan KUR mengalami perubahan yang signifikan, yang mana rata-rata nilai pada finansial rasio mengalami perubahan yang baik. UKM sebaiknya lebih efektif dalam memanfaatkan sumberdaya yang ada untuk menghasilkan penjualan, dan lebih memperhatikan laporan keuangan secara rutin agar dapat mengetahui perkembangan dari kinerja keuangan usahanya dari waktu ke waktu sehingga kedepannya dapat mengantisipasi dan dengan cepat mengambil keputusan untuk kemungkinan-kemungkinan yang bisa saja terjadi di masa yang akan datang, serta untuk lebih meningkatkan kinerja perusahaan dimasa yang akan datang.*

**Kata Kunci:** *kredit usaha rakyat, kinerja keuangan, usaha kecil dan menengah.*

## INTRODUCTION

### Research Background

Small and medium enterprise is one of the fundamental factors and gives a lot of valuable contribution to support the development of the economy in Indonesia as a developing country. The number of small and medium enterprises in Manado is 18,608 unit SMEs while the total revenue occurs to Rp. 5.796.897 million. SMEs development is not free from the problem of managing finances forget a good financial management requires accounting skills that not all SMEs can realize. According to (Chell, Baines, and Susan, 1998) SMEs argue do not need to conduct an assessment of the financial performance of the company, even they think that it is not necessary to make financial reports because it is considered too complicated and a waste of time, provided sure no loss.

Problems like these that can be addressed by the company's financial performance assessment. this research tries to explore and investigate the model of matter related to the condition of Financial performance of SMEs in Manado. The model of matter related to the condition of SMEs in Manado holistically and to identify the financial performance of SMEs in Manado. Also, understanding how vital contribution and role of bank microfinance credit and government to the Small medium enterprise in Manado as a strategic area of the eastern part of Indonesia. Meanwhile identifying problems and challenges are important, yet it will come to some possible solution to be offered and presented as a recommendation.

### Research Objectives

Identify the relation between microfinance credit (Kredit Usaha Rakyat) and the financial performance of small and medium enterprises in Manado.

## THEORETICAL REVIEW

### Finance

Finance always being disregarded in financial decision-making since it involves investment and financing in a short-term period. Further, also act as a restrain in financial performance, since it does not contribute to return on equity (Rafuse, 1996).

### Financial Performance

Being affected by multiple variables simultaneously, making any investigation limited, controls, Financial performance is an elusive dependent variable (March and Sutton, 1997).

### Microfinance Credit

According to Otero and Rhyne (1999) microfinance is the provision of financial services to low-income poor and very poor self-employed people.

### Small and Medium Enterprises

SMEs are recognized as the principal means of achieving equitable and sustainable industrial diversification and dispersal, revious studies (Ogujiuba, Fadila and Stiegher, 2013)

### Characteristics of SMEs

Criteria of Small and Medium Enterprises Based on Developments, other than based on the Law, from the standpoint of its development (Rahmana and Arief, 2008)

### Previous Research

Kibet, et al (2015) In the final analysis, the research clearly found that MFC has a positive effect on the performance of SMEs with a level of significance of less than 5%. In order to enhance a sustained and accelerated growth in the operations of SMEs credits should be client-oriented and not product-oriented. It's concluded that MFIs are concerned with the provision of financial services to people who are economically poor and who therefore experience financial exclusion in that they do not have ready access to mainstream, commercial financial services. It is concerned with the provision of financial services to poor people using means which are just, fair and sustainable for example they accept social collateral rather than financial collateral, access to larger amounts of the loan if repayment is performance is positive, easy way to access finance is not much paperwork and easy and short procedures.

Olowe, Moradeyo and Babola (2013) , the study was restricted to Ibadan metropolis Olowe, Moradeyo and Babola (2013) study investigated the impact of microfinance on SMEs growth in Nigeria. The population of the study consists of the entire SMEs in Oyo State. The results also showed that high-interest rate, collateral security, and frequency of loan repayment can cripple the expansion of SMEs in Nigeria. The paper recommended that MFBs should lighten the condition for borrowing and increase the duration of their customers' loan and also spread the repayment over a long period of time.

Kalui and Omwansa (2015) the Microfinance products offered (micro savings, microcredit, microinsurance, and training) have effects on the financial performance of SMEs. The study recommended that MFIs have a great responsibility of ensuring the proper use of credit which is an important facility in the financial performance of businesses. To achieve this, credits should be SMEs-oriented and not a product-oriented. Microfinance can research into very profitable business lines and offer credit to SMEs who have the capacity to exploit such business lines, microinsurance is paramount to SMEs in cushioning them in the event of unfavourable occurrence, and should be enhanced properly to the SMEs, and that business and financial training should be provided by Microfinance on a regular basis and most cases should be tailored toward the training needs of the SMEs.

Oleka, Maduagwu, and Igwenagu (2014) the study is aimed at evaluating the extent to which Microfinance banks have helped in financing small and medium enterprises (SMEs) in Nigeria, how they access funds from the microfinance banks to finance their productions and how these accessed funds affect their performances. The results show that the operation of microfinance banks is an impetus for the performance and growth of small and medium enterprises. However, other firm-level variables such as business size, business age, business location, loan size, loan maturity etc. are found to have a positive effect on enterprises' growth.

### Conceptual Framework

The conceptual framework which is shows the related of the Financial Performance of Small and Medium Enterprises befor and after using Microfinance Credit showed on Figure 1

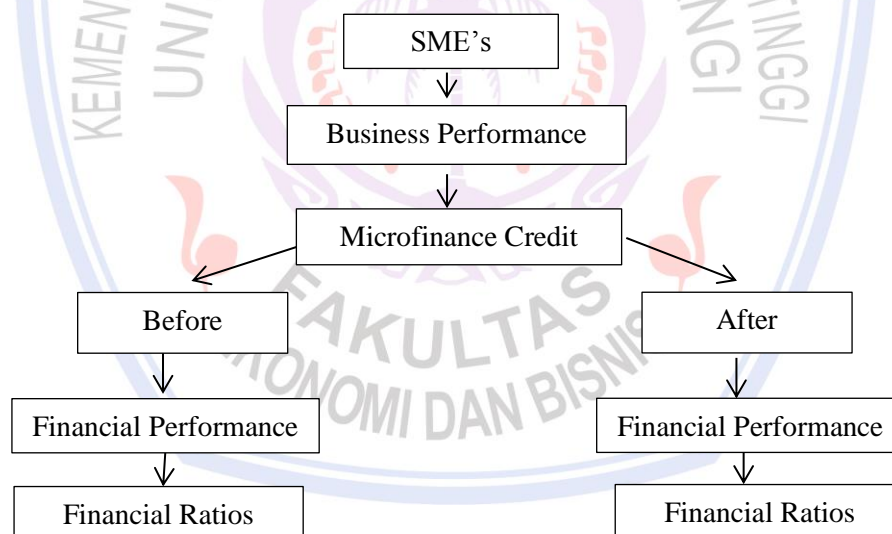


Figure 1. Conceptual Framework

### RESEARCH METHOD

#### Type of Research

The type of research used in this research is descriptive research with the qualitative approach. Descriptive research design is concerned with the determination of the variables (Cooper and Schindler, 2003).

#### Place and Time of Research

The interviews were conducted in separate places according to the location of every informant in Manado. The time of the research is from August until November 2017.

### Population and Sample

According to Sekaran and Bougie (2009; 262), the population is the entire group of people, events, or things of interest that the researcher wishes to investigate. The population of this research are 9 informant who use Microfinance credit on their business in Manado area. In this research is using purposive sampling.

### Data Collection Method

In this part data collection method divided into primary and secondary data with in-depth interview and observation.

### Data Analysis Method

This study used descriptive, descriptive statistics also help researchers detect sample characteristics that may influence their conclusions. According to Thompson (2009) this study used descriptive research Descriptive statistics are numbers that summarize the data with the purpose of describing what occurred in the sample. In contrast, inferential statistics are numbers that allow the investigator to determine whether there are differences between two or more samples and whether these differences are likely to be present in the population of interest. Descriptive statistics also can be used to compare samples from one study with another.

## RESULT AND DISCUSSION

### Result

The population of this research are 9 Small Medium Enterprises that using Microfinance Credit in Manado. Each part of this chapter shows the examining of the research problems using exploratory and descriptive-study case on qualitative research, observation and interview are used the tools to obtain data and information from informants and social situation around.

**Table 2 List of Respondent Small Medium Enterprises in Manado**

No	Informant	Address	Name of Business	Type of Industry
1.	Respondent1	Bumi Nyiur Ling. 2	Rumah Mode Lidya	Service Industry - sewing services
2.	Respondent 2	Jl. Sea. Lrg Anugrah	Cahaya Kencana Travel	Travel
3.	Respondent 3	Jl. Sea. Gg Tuminting	UD. Makaruyen	Home Industry – Instant Herbal Drink
4.	Respondent 4	Jl. Bouluard	Virgin Snack	Home Industry – Food
5.	Respondent 5	Jl. Dendengan dalam	Grevinka Snack	Home Industry – Food
6.	Respondent 6	Jl. Samratulangi	SB Handy Craft	Home Industry – Souvenir
7.	Respondent 7	Jl. Ranotana Weru	Dapur Jeani	Home Industry – Food
8.	Respondent 8	Jl. Wakeke	Kloeman Bakery	Home Industry – Food
9.	Respondent 9	Jl. Baru Karombasan	Kedai Sarelea	Home Industry – Food

*Source: Data Processed (2018)*

The first respondent is a housewife with the bachelor's degree background. Mrs. Lidya Rumimper is the owner of Rumah Mode Lidya, she heard that there was a KUR provided by theq bank. She applied for it with a

received a capital of 50 million rupiahs. Currently she has two employees, With the help of KUR she got right now, she opened clothes package for wedding services. This business experienced a decrease in current liabilities due to the obligations underwritten at that time were only payable notes and interest expenses to be paid per month. The company's liquidity ratio in 2014 compared to the year 2015 has a quite good increase. Based on the calculation activity ratio of the company after using microfinance credit was increase in 2015. For Ratio Leverage decrease but it is has a good impact for the company because the company ability to cover current liabilities and debt decrease compared last year. The profitability ratio on the Gross Profit Margin, Net Profit Margin and Return of Equity was increase but on the Return of Equity decrease this shows the net profit obtained in 2015 which was measured from the value of the owned assets had decrease.

The second respondent Mr. Yudi Mokoagung, owner of Cahaya Kencana Travel, he has one employee with the flexible working hours because of of moblie system so he only work when there are orders only. Until now he only serve ticket reservation only. He gets 50 million rupiahs of capital from bank BRI. Based on the calculation of financial ratios the liquidity ratio was increase is a fairly good increase, but liquidity must be improved by forming reserves or greater retained earnings. Activity Ratio on Inventory Turnover in 2014 and 2015, there is no turnaround because the company carries out an online system in ordering tickets from available airlines and adjust to market desires. Receivable Turnover and Fixed Asset Turnover increase but on the total assets decrease this swos the more ineffecient the company in managing its total assets in generating sales. On the Leverage Ratio decrease after using microfinance credit this happens because total debt in 2015 does not differ much with long term debt in the company, the Profitability Ratio on the GPM, NPM, and OPM was increase but ROA and ROE decrease because the company's net profit decrease due to the increase of total assets and the level of net income earned by the owner on capital invested in the business is slightly decreased.

The third respondent was a housewife, Mrs. Lintje Rumimper is the owner of UD. Makaruyen, she had the opportunity to follow the training how to mix indigenous plants into traditional medicines in Yogyakarta, ande she attend the training and exhibition of traditional medicines that was sponsored by the government as a delegate of North Sulawesi. So far, her 17 products now have license from government and halal label, and those products have been marketed in several shops and pharmacies in North Sulawesi. Liquidity ratio on the current ratio and quck ratio was increase. Activity Ratio of her business in 2014 was increase, Leverage Ratio in 2014 was decrease because the companies minimized the debt burden they have. On the Profitability Ratio in 2014 was increase the result shows that thre is an increase in net profit earned by the company in 2014, when measured from the value of its assets.

The fourth respondent in Mrs. Diane Sondakh, she is the owner of Virgin Snack, she currently has 0 kinds of products for 23 years of effort, the product sold are typical local snack of Minahasa. In 2012, she received microfinance credit loan from Angkasa Pura Cooperation amounting 25 million rupiahs, she already has 4 employees. Currently, she has marketed her product in several stores in Manado, Kotamobagu and Gorontalo. Liquidity ratio of Virgin Snack based on the calculation for current ratio and quick ratio was increase in 2013. For Activity Ratio on Inventory Turnover, Receivable Turnover and Fixed Asset Turnover was increase but on Total debt Turnover was decrease this shows ther is a decrease in the management of total assets companies to produce sales. Profitability Ratio of her business in 2012 was increase, this means that the company is expericing an increase in ne profit when measured from the owner's capital.

The fifth respondent is Mrs. Letty Pola, she has a highschool background, she also created a authentic snack products which offer up to 16 kinds of products of local snacks with varies packaging from 200g, 400g, to 800g. Currently she has 3 employees, she received microfinance credit loan from BRI in 2011. Based on the calculaltion the Liquidity Ratio of Grevinka Snack in 2011 was increase science she using microfinance credit. Activity Ratio of the company also experience a slight increase, this is a positive impact for the development of the company, the ability of this business in generating sales based on assets owned has been growing. Leverage Ratio in 2011 on the Total Debt to Assets Ratio was decrease and increase on the Long Term Debt to Assets Ratio because this business has no long-term debt at the time. This is due to the long terms debt obilgation on bank loans. Profitability Ratio indicates that the company experienced and increase in earnings gains through existing resources such as sales activities, cash, equity, number of employees and so forth.

The sixth respondent was a housewife, she the owner of SB Handy Craft. This business originated from her intention to develop the potential of the region to produce souvenirs for the tourists, currently she already has 9 employees with various working hours. For credit aid from the cooperation og Angkasa Pura in 2006, She obtained a loan at 25 million with a given interestof 1.18% with the repayment period given is 3 years. Liquidity Ratio on the Current Ratio and Quick Ratio was increase, this shows that the current asset value exceeds the current liabilities value, thats mean the companys finance in 2006 has the ability to pay its long-term debt, after

obtaining microfinance credit. Activity Ratio on the Inventory Turnover increase but on the Total Debt to Asset Ratio and Fixed Assets Ratio was decrease means there is a low turnover of fixed asset, there is a decrease in company performance in managing its fixed assets to generate sales. Leverage Ratio of SB. Hand Craft business in 2010 was increased compared to 2009, this is because this business has long-term loan and interest expense in 2010. Profitability Ratio in 2010 was increase, the increasing, this is the better state of the company's operations, the level of operating decrease while there is an increase in sales, and this is good for development of the company it is considered capable of using assets that are owned effectively to generate profits.

The seventh respondent was Mrs. Jeanice Kambey as the owner of Dapur Jenie, the products she sells are sambal roa and skipjack tuna with the size varies from 120-190 packed in bottles and plastic. In 2016 she received a microfinance credit of 5 million from BRI bank and then she submitted a to up of 10 million. Currently, she has not been using any employees, she has a monthly production and sales target of min 100 bottles. Now she has been supplying products at several stores in Manado. The Liquidity Ratio in 2016 was increase this shows that the level of liquidity of the company increased and the business is in good condition for short-term creditors, when the company is less able to pay of its short-term liabilities. The Activity Ratio on the Inventory Turnover and Receivable Turnover was increased but on the total debt to assets ratio was decrease because the lower the rate of asset turnover the more inefficient the company in managing total assets in generating sales. The Leverage Ratio on the Debt to Asset Ratio in 2016 was increase, this means total assets in 2016 are financed by loan capital. Profitability Ratio on the GPM, NPM, ROA, and ROE was increase but on the OPM was decrease, this due to increased operating expenses, the lower OPM, the less good the operations of a company.

The eight respondent is a man named James Lang, he is the owner of UD. Kloeman Bakery, which is a home industry company engaged in the field food management. After a 50 million KUR loan in 2013, he expanded his business by creating new menus, UD. Kloeman Bakery began to grow by having a cake products with limited raw material. Currently he has two employees who served in the production. The liquidity ratio UD. Kloeman Bakery in 2013 increased, the ratio indicates that the company's liquidity is in good condition. Activity Ratio in 2013 increased, this means the company is more efficient in carrying out operations, efficient in managing its total assets to increase sales, and the value of fixed asset turnover is increasing, as a result of the company's efficiency in managing its fixed assets to generate sales. On the Leverage Ratio in 2013 increased it means that the more number of asset turns, the more efficient this business in managing its assets to generate sales. The Profitability Ratio 2013 increased, because the number of sales has been increased compared to the cost of goods sold, increase in sales will provide an increase in net revenue, which can increase the value of NPM in 2013, the operation of this business is better, net income generated when measured from the value of assets has increased compared with the previous year, and the net profit earned by the owner when measured from owner's capital is increased in 2013.

The ninth respondent was Mrs. Sjeni Rumagit, she is the owner of Kedai Sarerea, after running the business for 2 months, she got help from microfinance credit loan from bank BRI for business development, she earned 15 million in 2011, the employee she currently has is 2 people. Liquidity Ratio in 2011 increase, this because in 2011, the business experienced an increase in current assets and decrease in current liabilities and quick ratio increased by 46.8%, which means that every Rp.1.00 of current debt is guaranteed by Rp 46.8 in assets. This indicates that the business liquidity is in a good condition. Activity Ratio in 2011 was increase this shows the effective of managing inventory, this due to an increase in the accounts receivable followed by the amount of sales and more efficient efforts to manage total assets in generating sales. Leverage Ratio in 2011 was decrease, this means that the lower of the asset turnover is more inefficient the firm will be in managing its fixed assets to generate sales. Profitability Ratio in 2011 for the NPM, ROA, and ROE increase this is due to the decline in the number of business sales by 1% compared to cost of goods sold, but for the GPM and OPM in 2011 decrease this due to the decrease in operating expenses compared to the total sales, this shows the OPM of this business is in good condition.

**Discussion****Table 3 Increase In Production Amount, Sales Turnover, And Profit of SMEs Before And After Microfinance Credit**

Responden	Production (Rp Million)			Sales Turnover (Rp Million)			Profit (Rp Million)		
	Before	After	Increase (%)	Before	After	Increase (%)	Before	After	Increase (%)
Respondent 1	350	1.500	32%	4.000	22.500	36%	3.284	19.503	30%
Respondent 2	500	2.700	34%	18.750	68.000	26%	3.656	13.551	27%
Respondent 3	1.500	2.500	16,6%	8.500	25.500	20%	6.960	16.059	23,7%
Respondent 4	1.000	3.540	25%	15.620	46.160	19,5%	12.897	34.955	17,1%
Respondent 5	1.800	3.960	12%	8.750	34.500	29%	3.775	24.312	38%
Respondent 6	2.850	3.388	18%	10.380	30.420	29%	7.510	21.931	29%
Respondent 7	470	1.670	25,5%	5.334	19.500	26,5%	4.664	18.079	28%
Respondent 8	1.905	4.185	19,1%	28.240	94.240	23%	22.150	79.169	25%
Respondent 9	1.125	3.600	22%	12.500	28.000	12,4%	8.175	21.365	16%

Source: Data Processed (2018)

Refer to the above table to find out the amount of contribution of Microfinance Credit to performance by sector is to calculate the average value of increase of performance indicator that is production, sales turnover, and profit between before and after using Microfinance Credit, from result of calculation of average of performance indicator can be known that the contribution of Microfinance Credit in influencing the improvement of Financial Performance is in Respondent 1 respondents with income stamping after using Microfinance Credit increased by 30%.

Descriptive variable of production cost bulanan before using loan of Microfinance Credit and after getting loan of Microfinance Credit at 9 SMEs in Manado have average monthly production cost before using loan of Microfinance Credit as much as Rp 1,272,200 and after get loan of Microfinance Credit as much Rp 4,498,100, so on average the cost of production increases after obtaining a loan of Microfinance Crdit.

Descriptive characteristics based on monthly sales level before getting Microfinance Credit has average monthly sales turnover of Rp 12,452,600 and sesudah using loan of Microfinance Credit has average monthly sales turnover of Rp 41,535,000 so on average the sales turnover increases after using Microfinance Credit.

Deskriptif variable profit / monthly profit before getting loan of Microfinance Credit and after getting loan of Microfinance Credit at 9 SMEs in Manado have average monthly profit as much as Rp 7,785,700 and after using Microfinance Credit have average monthly profit sebanyak Rp 27.658. 200 so on average monthly profit after earning a loan of Microfinance Credit.

Current Ratio and Quick Ratio is good if the ideal value is 200% (Darsono, 2009). Based on the comparison of financial performance among SMEs stated that the average current ratio and the rapid ratio to the company's liquidity ratio still stands below 200%, meaning that financial management is less able to allocate more productive funds. Activity Ratio of SMEs after using the average KUR experienced an increase in Inventory Turnover and Receivable Turnover. This is due to increased receivables and inventory on the company after using KUR. This has good impact for the company because it means that sales have increased and in Total Assets Turnover and Fixed Assets Turnover. The average value of SMEs after using KUR has decreased due to the increasing turnover of net sales. this is influenced by the business climate faced by SMEs in the market which causes the net sales amount obtained by each SME unstable.

Leverage Ratio of SMEs after receiving KUR funds experienced an average decline, although the company used KUR funds as additional capital of their business but they still maintain the existence of their assets. Despite having to meet short-term obligations and long-term obligations, this does not affect the value of production and sales because they use both personal mixed capital and borrowing through credit with portions that are not much different from before. According to Darsono (2009), leverage ratio is considered fair if it has the highest average value above 50%, the average amount of own capital. Despite the difference between before and after using KUR funds, the yield of leverage ratio on total debt to assets and long-term debt to fixed assets is below 50%. Profitability Ratio SME after using KUR on average value is increased compared to before using KUR. They must have a strategy to maintain their business in both capital and loan capital. Business owners

must be able to attract consumers, and they must control the business and find a strategic place to run the business to make profit.

So, it can be concluded through this descriptive analysis, we are able know the growth of financial performance of SMEs in Manado city before and after using KUR, It can be seen that after using KUR, the average growth of SMEs Manado is good. According to Oleka, Maduagwu, and Igwenagu (2014) that microfinance credit and advances to the small and medium scale entrepreneurs have a significant positive impact on the SMEs enterprises component of GDP. This is influenced by the increasing amount of production and account receivable of the company's. the Liquidity Ratio, Activity, and Profitability of SME has increased, while one variable Leverage Ratio on the average the number of SMEs is decreased. According to Kibet, et al (2015) these results suggest that most SMEs are able to effectively and efficiently allocate the initially borrowed loans and thus with knowledge gained through training by MFIs, they are able to register positive results and also make savings. The low percentage of using loans only shows that business financial performance is sound thus SMEs are able to plow back profits to expand their business. According to Oleka, Maduagwu, and Igwenagu (2014) the regression results imply that microfinance credit contribute more to the financial performance of SMEs and hence higher return on assets.

## CONCLUSION AND RECOMMENDATION

### Conclusion

Results from this study show that financial services obtained from Microfinance Credit have highly benefited SMEs in Manado and have facilitated the sharing of business skills and innovative ideas, as well as alleviated the acute shortage of finance to an extent. The policy implication of this study is that microfinance contributes significantly to an enhanced entrepreneurial environment by making the business environment more conducive and narrows the resource gap for small businesses.

When properly harnessed and supported, microfinance can scale-up beyond the micro-level as a sustainable part of the process of economic empowerment by which the poor improve their situation. Based on findings from this study, the use of Microfinance Credit has potentials for enhancing the performance of small businesses in three major ways- regular participation in microfinance credit, an offering of non – financial services, and as a means to enhance entrepreneur's productivity.

If we consider the variation in the impact of these factors on the intensity of MSE growth and survival within any one sub-sector, it is possible to define a common series of critical factors for sub-sets of firms. This suggests that policies aimed at promoting the performance of micro and small enterprises should adopt a sectoral approach. Thus, approaches and resources should address the most critical determinants of performance in focal sub-sectors, aiming to augment access to critical resources and, perhaps, overcome the disadvantages that cannot be easily varied.

### Recommendation

Based on the discussions and conclusions above, the author tries to provide suggestions with the hope that it can be useful for the management of the company in connection with the financial condition of SMEs in the city of Manado. Microfinance Credit should increase the duration of their clients' asset loans, or spread the repayment over a longer period of time, or increase the moratorium. Also, the Microfinance Credit should employ collective group-based loan disbursement strategy; this will reduce the default rate and the volume of the portfolio at risk.

In terms of policy on support services, Microfinance Credit should assist their clients by providing training on credit utilization and provide information on government programmes to Microfinance Credit operators in the country. Such Microfinance Credit support and training institutions should be strengthened and properly funded while the services should be properly delivered too. Microfinance Credit can partner with relevant technology enterprise development organizations/skills training institutions to provide client-focused skills training to their clients. Microfinance Credit should seek long-term capital from the Pension and Insurance Companies in the country. This will help to reduce their lending rates and enable them to spread their interest payments over a longer period to encourage the acquisition of capital assets and technology. The Microfinance Credit should attend to loan proposals of Microfinance Credit through their business associations and other self –help organizations. This will reduce the adverse effect of information asymmetry. Social capital can be employed to obviate the need for tangible collateral.



The Government should urgently tackle the problem of infrastructure development and maintenance. A National Science and Technology policy that is properly funded; and an educational policy with emphasis on technology and entrepreneurship education, should be formulated and implemented for SMEs growth and expansion in the country. The government should establish relevant well adapted and appropriately structured institutions and organizations to provide support for Microfinance Credit in such aspect as; procurement, supply and distribution of raw material, the supply of local/imported machines for use on concessional terms, training in several technical grades, and create favorable market conditions. They should also set up Tool Design Institute and Testing Centres for raw materials and produced goods/service institute.

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