



The impact of credit relaxation policies on sustainability performance of MSMEs

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ABSTRACT

This research should explore the mechanisms through which credit relaxation policies influence sustainability performance and the conditions under which these policies are most effective during the pandemic covid-19, the most crisis MSMEs are Facing. This research is very urgent for elevate government policy with continuous improvement, especially for credit relaxation policy. This research focuses on the impact of credit relaxation policies on the sustainability performance of MSMEs. Data analysis of 123 respondents was conducted using smart-PLS03 software. Research results show that the cost relaxation program, directly and indirectly, affects SMEs' SMEs' sustainability performance. Furthermore, various relaxation programs significantly affect SMEs' sustainability performance and have the highest contribution. The finding of the credit relaxation policy positively influences the sustainability performance of MSMEs in Indonesia, especially in the Jabodetabek area. This means that the better the credit relaxation policy set by the government during the pandemic, the more sustainable performance of MSMEs, especially in Indonesia, can be encouraged.

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INTRODUCTION

Credit relaxation policies are measures taken by governments and financial institutions to ease access to credit for micro, small, and medium-sized enterprises (MSMEs). These policies are aimed at promoting entrepreneurship, creating job opportunities, and stimulating economic growth.

The sustainability performance of MSMEs is an important aspect of their overall success. Sustainable MSMEs are those that operate in a way that minimizes negative impacts on the environment and society, while maximizing economic benefits (Al-Shaikh & Hanaysha, 2023). This includes using resources efficiently, minimizing waste, reducing emissions, and engaging with stakeholders in a responsible manner (Rakshit et al., 2021).

The impact of credit relaxation policies on the sustainability performance of MSMEs is an area of interest for policymakers, researchers, and practitioners. While credit relaxation policies

may increase access to credit and financial resources for MSMEs, it is unclear whether this leads to improvements in their sustainability performance.

There are several factors that can influence the relationship between credit relaxation policies and the sustainability performance of MSMEs. These include the design and implementation of the policies, the characteristics of the MSMEs that receive the credit, and the broader economic, social, and environmental context in which the MSMEs operate.

To better understand the impact of credit relaxation policies on the sustainability performance of MSMEs, further research is needed. This research should explore the mechanisms through which credit relaxation policies influence sustainability performance, as well as the conditions under which these policies are most effective. Additionally, research should consider the potential unintended consequences of credit relaxation policies, such as increased debt levels or reduced incentives for sustainable practices.

Business people need to think about how to overcome the problems of their business sustainability performance to achieve positive economic, social, and environmental performance in the long term (Effiom et al., 2022; Nugraha et al., 2022; Takeda et al., 2022). Sustainability management is a synergy of three pillars, namely economic, social, and environmental performance (Eikelenboom & de Jong, 2019). Business continuity is a business strategy for business practices to achieve maximum business goals. So far, large companies have dominated the pillars of business sustainability. Micro, Small, and Medium Enterprises (MSMEs) contribute to the economy and have received little attention for business sustainability. MSMEs are still considered 'less important' in overcoming issues of sustainability performance, even though MSME's contribution is significant to national economic development. MSMEs can create jobs and absorb labor to produce productive economic activities for low-income communities. In 2019, MSMEs in Indonesia contributed 60% of the GDP and as much as 14% to total national exports (infobanknews.com, 2020).

However, since the covid 19 pandemic, which took place one year ago, MSMEs have become one of the sectors that have fallen and cannot carry out normal economic activities. The government's policy in dealing with this pandemic has impacted the large number of MSMEs that cannot produce usually and do not even close their businesses. In addition, nationally, many companies have terminated their employment.

Facing this situation, the Government issued a policy in OJK Regulation Number 11/POJK.03/2020 concerning national economic stimulus as a countercyclical policy in spreading the coronavirus disease 2019. This regulation stipulates that banks can carry out credit or financing restructuring for all debtors, including MSME debtors affected by Covid 19. The Ministry of Cooperative and MSME details the number of MSMEs that have received funding from banks and cooperatives, as many as 11.2 million in MSMEs, BPR 16.3 million MSMEs, and Sharia Rural Banks as many as 1.9 million MSMEs (financial. business. com, 2020).

For the banking sector, POJK policy no. 11/POJK.03/2020 is very helpful, considering that during the pandemic, banking performance was disrupted by the capacity of debtors to carry out their credit obligations (Disemadi & Shaleh, 2020). The purpose of carrying out credit restructuring is to provide credit relaxation to affected businesses through various restructuring schemes such as extending credit tenors or loan time, reducing interest rates, reducing principal arrears, reducing interest arrears, adding credit facilities provided to business actors (Lagazio et al., 2021; Nugraha et al., 2021).

Several studies have examined the impact of credit relaxation policies on the sustainability performance of MSMEs (Chiappini et al., 2020, 2020; Eikelenboom & de Jong, 2019; Yang, 2022). A study by Peter et al., (2022) found that credit relaxation policies had a positive impact on the sustainability performance of MSMEs in Nigeria. The study found that MSMEs that received credit under the relaxed policies were more likely to adopt sustainable practices such as energy-efficient technologies and waste management systems (Kärnä & Stephan, 2022).

Another study by Sarker, (2020) examined the impact of credit relaxation policies on the sustainability performance of MSMEs in Bangladesh. The study found that credit relaxation policies had a positive impact on the adoption of sustainable practices such as renewable energy and waste reduction. The study also found that MSMEs that received credit under the relaxed policies were more likely to invest in technology and innovation.

A study by Abor & Quartey, (2010) examined the impact of credit access on the sustainability performance of MSMEs in Ghana. The study found that access to credit was positively associated with the adoption of sustainable practices such as energy efficiency and waste reduction. However, the study also found that the impact of credit access on sustainability performance was limited by factors such as inadequate infrastructure and a lack of technical expertise.

RESEARCH METHOD

This study used a quantitative research method. The study population was MSME actors in Indonesia, especially in the Jabodetabek area, who received a relaxation program from the banking sector. With a research period of April 2021 to April 2022, the research period was very long because the research was carried out during the Covid-19 pandemic and when in Indonesia, especially the Jabodetabek area, was still restricted in activity. Primary data was collected using a snowball sampling technique in which one informant or sample would recommend other informants who fit the research criteria. The number of samples obtained was 123 respondents. This number met the standards based on the references of Sekaran & Bougie (2016), who recommended that sample sizes larger than 30 and lower than 500 are sufficient for most studies.

The questionnaire uses a Likert scale of 1-5 with indicators of statements between strongly disagree (1) to strongly agree (5). The test uses structural equation modeling (SEM) with smartPLS 03 software. The analysis covers two-stage assessments; first, construct validity and reliability of each indicator are used to test the measurement model; finally, a model fit to test the causal correlation between latent variables.

RESULTS AND DISCUSSIONS

Results

When evaluating, the measurement model considers factor loadings, reliability, discriminant, and convergent validity. The first step in the evaluation was to look at the loadings of the indicators. Loadings are more significant than the 0.7 used for acceptable item reliability. Table 1 shows that all factor loadings have exceeded 0.7. The second step is to determine the internal consistency of reliability (Hair et al., 2010). Table 1 shows a composite reliability metric with a threshold basis of 0.7. All of the reliability values added together were more than 0.7, which shows that there is good internal consistency. The third step involved determining convergent validity (Henseler et al., 2015). The extracted average variance (AVE) was used, with a value for each construct that should be greater than 0.5. The AVE values shown in Table 1 explain that all constructs exceeded 0.5.

Table 1. Measurement Analysis

Construct Variable	Outer Loadings	VIF	Cronbch's Alpha's	Composite Reliability	Average Variance Extracted (AVE)
X1			0.605	0.835	0.717
X1.1	0.840	1.232			
X1.2	0.854	1.232			
X2			0.816	0.879	0.646
X2.1	0.859	2.667			
X2.2	0.804	2.206			
X2.3	0.831	2.189			
X2.4	0.715	1.677			

Y1			0.758	0.860	0.673
Y1.1	0.810	1.509			
Y1.2	0.799	1.527			
Y1.3	0.851	1.549			

The fourth step was to determine discriminant validity. We use different metrics to ensure that each construct is distinct. (Henseler et al. (2015) proposed using the heterotrait-monotrait ratio (HTMT) to test the discriminant validity of constructs. When HTMT values are high, problems arise; for similar constructs, the threshold value is (0.90). Where, for distinct constructs, it is (0.88). All the HTMT values in Table 2 are lower than the threshold.

Table 2. Discriminant validity HTMT

	X1_ Relaxation program costs	X2_ Various relaxation programs	Y_ SMEs' sustainability performance
X1_ Relaxation program costs			
X2_ Various relaxation programs	0.786		
Y_ SMEs' sustainability performance	0.888	0.777	

Research results table 3 shows R-square, the ability of the independent variable to explain the dependent variable, R2 SME's sustainability performance, is 48.5%. This means that the independent variable in the research model (relaxation program costs and various relaxation programs) can explain the dependent variable (SME's Sustainability performance) of 48.5%, and other variables explain 51.5%.

Table 3. Coeficient Determination (R-Square)

	R Square	R Square Adjusted
X2_ Various relaxation programs	0.304	0.297
Y_ SMEs' sustainability performance	0.485	0.475

First, the significance of the relationship, indicators, and construct variables are tested using path coefficient analysis, and then bootstrapping is used with a sample size of 5000. The outcomes are displayed in figure 1.

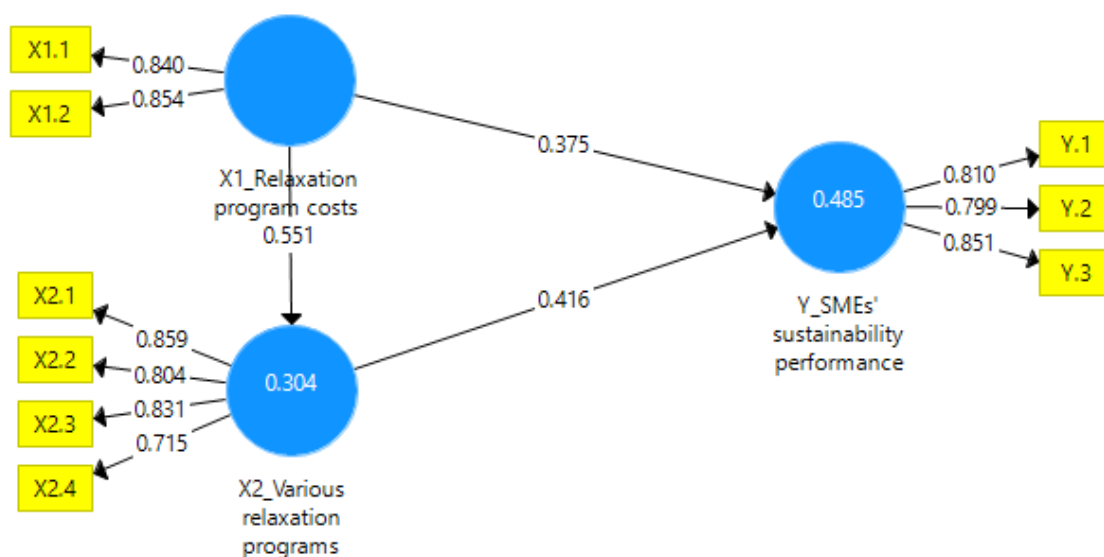


Figure 1. Results of Hypothesis tests

The research results in table 4 answer the research hypothesis. The research hypotheses, both direct and indirect, are significant or accepted. Relaxation program costs significantly affect SMEs' Sustainability performance (H1a; $\beta = 0.375$). Besides that, various relaxation programs also directly affect SMEs' sustainability performance (H2; $\beta = 0.416$). Furthermore, relaxation program costs indirectly affect SMEs' sustainability performance by di mediated by various relaxation programs (H1b; $\beta = 0.551$).

Table 4. Hyphotesis Testing

	Hyphotesis	Original Sample/ β	ρ -Value	Decision
H1a	Relaxation program costs → SMEs' sustainability performance	0.375	0.000***	Accepted
H1b	Relaxation program costs → Various relaxation programs → SMEs' sustainability performance	0.551	0.000***	Accepted
H2	Various relaxation programs → SMEs' sustainability performance	0.416	0.000***	Accepted

Note: *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively

Discussions

From the findings, it can be seen that the credit relaxation policy has a positive influence on the sustainability performance of MSMEs in Indonesia, especially in the Jabodetabek area. This means that the better the credit relaxation policy set by the government, the more sustainable performance of MSMEs, especially in Indonesia, can be encouraged.

During the Covid-19 pandemic, SMEs experienced difficulties in running a business, so the relaxation policy did not charge SMEs fees, which immensely helped business continuity. Business sustainability (sustainability company) is a company that can focus on three key factors, not only financial performance but also environmentally (sustainable) and disclosure of company sustainability (Artiach et al., 2010). Álvarez Jaramillo et al. (2019) said that business continuity, especially in SMEs, is where environmental and social goals are achieved along with stable economic results. Therefore, business actors need to maintain the sustainability performance of SMEs so that SMEs have sufficient cash resources to manage SMEs.

In the future. Previous research by Schaltegger (2020), which came to the same conclusion, backs up the results of this study. They found that credit relaxation policies affected the long-term success of MSME businesses. Researchers from Agustin & Solikin (2021) say that a credit restructuring scheme that makes it easier for businesses affected by the COVID-19 pandemic to get credit can boost the productivity of MSMEs.

There is evidence to suggest that relaxation programs can have a positive effect on the sustainability performance of small and medium-sized enterprises (SMEs). However, the cost of implementing these programs can be a concern for SMEs, and it is important to consider the potential mediation effects of different types of relaxation programs. Research findings show the cost of implementing relaxation programs can be a concern for SMEs, especially those with limited resources. One way to address this concern is to explore low-cost or free relaxation programs that can still deliver the desired benefits. Another important consideration is the potential mediation effects of different types of relaxation programs. Research finding make evidence some relaxation programs have a direct impact on sustainability performance, Agustin & Solikin (2021) explain others relaxation program may work indirectly by improving employee well-being and job

performance. Understanding these mediation effects can help SMEs choose the most effective relaxation program for their specific needs and goals.

Overall, while the cost of implementing relaxation programs may be a concern for SMEs, the potential benefits for sustainability performance make it a worthwhile investment. By exploring low-cost or free options and considering the potential mediation effects of different programs, SMEs can make informed decisions that will support their long-term success.

CONCLUSION

In conclusion, the credit relaxation policy set by the government has a positive impact on the sustainability performance of MSMEs in Indonesia, particularly during the COVID-19 pandemic. This finding supports previous research that also found a positive relationship between credit relaxation policies and the long-term success of MSMEs. Additionally, there is evidence to suggest that relaxation programs can have a positive effect on the sustainability performance of SMEs, although the cost of implementing these programs can be a concern for SMEs with limited resources. However, by exploring low-cost or free relaxation programs and understanding the potential mediation effects of different types of programs, SMEs can make informed decisions that support their long-term success and sustainability performance. Overall, promoting sustainable business practices and maintaining the sustainability performance of SMEs is crucial for their long-term viability and contribution to the economy. Limitation with focus on credit relaxation, can be combined with another factor for future research such as, economic condition factor.

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