



The Determinant of Credit Fund Disbursement of Pawnshop Company in Central Java Province

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Abstract

Pawnshops as nonbank financial institutions whose core business is credit fund distribution services to the public on the legal basis is recommended to pay the company's investment, consumption activities, as well as the activities of the distribution of goods and services. This study aims to analyze how much influence the gross domestic regional product, unemployment, and inflation rates against the disbursement of credit at Central Java Pawnshops. This study uses secondary data from the Central Statistics Agency of Central Java province from 1984 to 2013. The variables of this study gross domestic regional product, unemployment and inflation rates in Central Java. In this study, we used quantitative study methods by using multiple linear regression analysis with Ordinary Least Square method (OLS). The results of this study note that gross domestic regional product and a significant positive effect on the disbursement of credit, unemployment did not effect the disbursement of credit, and inflation rates positive and significant impact on the distribution of credit funds. Variables gross domestic regional product, unemployment, and inflation together effect the disbursement of credit funds pawnshops in Central Java as for its influence positively and significantly.

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INTRODUCTION

As stated in the Decree of the Minister of Finance of the Republic of Indonesia Number 792 of 1990 on "Financial Institutions", financial institutions are restrictions institutions whose activities are in the field of finance, collecting and disbursing funds to the public especially to finance company's investment. Although, in this regulation financial institutions are prioritized in financing company's investment, but it does not mean that financial institution is only for it. In fact, financing activities of financial institutions can be devoted for company's investment, consumption activities, and services and goods distribution activities. According to Kholisudin (2012), credit demand in Indonesia is nominally increasing from year to year. It is very reasonable considering that Indonesia is a developing country which needs development in all aspects that exist in public. It goes without saying that money or capital is strongly important. The public's money which is limited encourages them to make payments in the form of credit in financial institutions to cover their financial needs in economic activities. Pressure from powerful donors provides another potential explanation for lax enforcement (Kilby, 2009)

In 1998, there was an economic crisis which enormously affected Indonesia being slumped and inflation also highly increased. This

economic condition made worse the condition of banking and other financial institutions except pension funds and pawnshops. Indeed, national operating conditions became weak as the result of internal weaknesses and worsen by external pressures, such as volatility and high interest rates. Those had worsened the performance of borrowers so the problem of loans had been accumulated by the time. Therefore, banks tended to invest their funds into interbank money market (PUAB) and SBI rather than in the real sector which were considered to have higher credit risk. This situation caused banking got disruption in distributing funds to customers, as the result some of them moved to pawnshops. Consequently, the business activities of pawnshops signified a high increase (Economic Report of Indonesia, 1998/1999).

Pawnshop Company (Persero) in Central Java Province has branches which spread throughout the region of Central Java from big cities into districts. There are 456 branches. The development of the amount of credit disbursed by Persero of region offices in Central Java got fluctuations that could be seen in the last 17 years. It was proven in table 1.1 that credit demand had fluctuations. It was in 1998 to 2004 was getting increased, then in 2005 decreased into Rp 1.001.210 (Million). While in 2006 to 2012 got increased, again in 2013 into Rp 7,153,188 (Million).

Table 1. Business Development of Pawnshop Company (Persero) in Central Java Province Year 1997-2013

Year/ Month	Credit Giving (Million Rp)	Repayment of Credit (Million Rp)
1997	275,635	259,516
1998	431,052	399,630
1999	437,320	443,062
2000	575,624	544,818
2001	780,381	737,030
2002	983,679	852,206
2003	981,317	988,831
2004	1,421,778	1,358,988
2005	1,242,814	1,140,819
2006	1,645,775	1,530,955
2007	1,955,601	1,849,450
2008	3,427,528	3,127,879
2009	4,611,057	4,242,409
2010	5,825,396	5,259,321
2011	7,007,451	6,506,525
2012	7,562,359	7,239,813
2013	7,153,188	6,807,159

When the Indonesian economy was slumped in 1998 in which most of the economic performances/ indicators plummeted and worsen banks and other financial institutions, except pensions and pawnshops. In that time, pawnshops had contributed to help public in lending, as the result pawnshops in Indonesia got a surge in customers. Persero was engaged in credit services and had the main task of distributing pawn credit funds which greatly helped economic growth. At the same time, borrowers residing in countries with high investment ratios pay lower spreads on bond issuance particularly during periods of high credit flows, but we find no similar effect for loan spreads (Francis, et al., 2014)

The variables used in this study are Gross Regional Domestic Product (GRDP), unemployment rate, and inflation rate, since those three variables are important variables for measuring performance of economy in a region and include in the macroeconomic indicators. Besides, macroeconomic indicator is an observer tool of economic activity achievement (Sukirno, 2010: 17).

GRDP is the amount of value added which is generated by all business units in certain

region, or the sum of the value of final goods and services produced by all economic units in a region (BPS, 2015). According to Sutarno (2002), GRDP in Semarang region has influence on mortgage loans but not significant. It is caused by largest share of remuneration in GRDP is received by groups who have bank accounts, debit cards or credit cards, and they are capital owners, owners of business tools, employers and workers, thus when they need liquidity/ cash, they can use it.

Table 2 notes Central Java GRDP data and GDP growth rate at constant market prices based on business field in Central Java. The economic growth of Central Java in 2013 which is shown by the rate of GDRP based on 2000 constant prices in table 1.2 aggregately is quite dynamic, that is reaching 5.81% with nominal of 223,099,740.34 (Million Rupiah).

The growth rate of GDRP of Central Java in the period of 1998-2003 shows that economic growth was under 5% as it was still recovering due to the economic crisis in 1998 which caused the economic growth of Central Java being slumped.

Table 2. Gross Regional Domestic Product (GRDP) and GDP Growth Rate Based on 2000 Constant Price by Industrial Origin in Central Java Year 1997-2013

Year	GRDP (Million Rupiah)	GRDP Growth (%)
1997	43,129,838.90	-
1998	38,065,273.35	-13.43
1999	39,362,404.92	3.43
2000	114,701,304.81	3.60
2001	118,816,400.29	3.17
2002	123,038,541.13	3.55
2003	129,166,462.45	4.98
2004	135,789,872.31	5.13
2005	143,051,213.88	5.35
2006	150,682,654.74	5.33
2007	159,110,253.77	5.59
2008	167,790,369.85	5.46
2009	176,673,456.57	5.14
2010	186,992,985.50	5.84
2011	198,270,117.92	6.03
2012	210,848,424.06	6.34
2013	223,099,740.34	5.81

Source: BPS, 1997-2013

While in 2004-2013, the economy of Central Java annually grew above 5 percent although it was still fluctuated.

Moreover, unemployment is a condition in which a person who belongs to the labor force (15-64 years) wants to get a job but has not yet (Sukirno, 2010: 13). According to Sutarno (2002), unemployment rate in Central Java has a significant effect on the distribution of pawn loans for Semarang regional offices. The regression coefficient shows that if the number of unemployed people increases, so does the pawn credit, and vice versa.

Additionally, inflation is defined as an increase of general prices prevailing in an economy from one period to another. According to Titi widiarti and Sinarti (2008-2012), the inflation rate in Batam partially has no significant effect on the credit distribution of Pawnshops in Batam, but it simultaneously influences the credit distribution of the Batam Branch Pawnshop. However, the regression coefficient shows that the increase of inflation rate in Batam does not significantly affect public trust to use credit services from pawnshops. inefficiencies in mainstream credit markets have pushed selected households to frequent high cost payday loans for their liquidity needs (Salleh, et al.,2014)

RESEARCH METHOD

Types of Research and Data Sources, this study is a quantitative study which used secondary data. The data used were from the Central Bureau of Statistics (BPS) report from 1984 until 2014. They are from GDRP, the number of unemployed, the inflation rate, and distribution of credit funds of Pawnshop Company (Persero). Moreover, the type of data used was time series data. It chronologically arranged according to time on one particular variable. Meanwhile, the time series data in this study were from period of 1984-2013.

Research Variables, this study used two types of variables, namely dependent and independent variable. In this study, the dependent is credit distribution of Persero, while the independent is GDRP, unemployment, and inflation.

Method of Collecting Data, in line with quantitative approach, to collect the data, this study used documentation method which were taken from the Central Bureau of Statistics (BPS) of Central Java Province.

Data Analysis Method, this study used quantitative research method by using time series data. According to Kuncoro (2007: 24), time series data is used to see the effect in certain time. To know how big the influence of independent variable to dependent variable was analyzed by using multiple linear regression model with OLS (Ordinary Least Square) method. While the tool which was used to facilitate data processing was Eviews 6.0 software.

Specification of Regression Model, Econometrics effect of GDRP (logGDRP), unemployment (logJP), and inflation (INFL) on the distribution of credit funds (logPKRED) of Persero in Central Java Province can be analyzed by using the following equation:

$$\text{LogPKRED}_t = \beta_0 + \beta_1\text{LogGDRP}_t + \beta_2\text{LogJP}_t + \beta_3\text{INFL}_t + \text{AR}(1) + \text{AR}(2) + \epsilon_t \dots \dots \dots (1)$$

- Notes:
- LogPKRED = Loan Fund Distribution Pawnshop (Million Rupiah)
 - LogGDRP = GRDP at constant prices (Millions of Rupiah)
 - LogJP = Number of Unemployed (Soul)
 - INFL = Inflation Rate (Unit percent)
 - β_0 = Intercept
 - $\beta_1, \beta_2, \beta_3$ = Partial regression coefficient
 - AR = Autoregressive
 - ϵ_t = Error term
 - t = Time

RESULTS AND DISCUSSION

Model Specification Test, regression model related to the effect of GRDP, unemployment, and inflation on credit funds distribution of Persero used multiple linear regression model OLS (Ordinary Least Square) method. The equation of multiple linear regression model as follows:

$$\begin{aligned} \text{LogPKRED}_t &= \beta_0 + \beta_1\text{LogGDRP}_t + \beta_2\text{LogJP}_t + \beta_3\text{INFL}_t + \text{AR}(1) + \text{AR}(2) + e_t \dots \dots \dots (2) \\ \text{Log(PKRED)} &= -62.17630 + 3.991346*\text{Log(GDRP)} + 0.079711*\text{Log(JP)} + 0.007196*\text{INFL} + [\text{AR}(1)=0.799966134331, \text{AR}(2)=-0.0461383076395] \end{aligned}$$

Table 4. Results of Multiple Linear Regression Analysis Ordinary Least Square Method

Variable	Coefficient	Std. Error	Probability	R-squared
C	-62.17630	11.41499	0.0000	
LOG(PDRB)	3.991346	0.649137	0.0000	0.977071
LOG(JP)	0.079711	0.261649	0.7635	
INFL	0.007196	0.003319	0.0412	

Based on the estimation results, it can be seen that GRDP has positive and significant effect on 5% real level with coefficient 3,991346, and probability 0,0000. It means that if the GRDP increases by Rp 1,000,000 so does credit funds distribution of Persero in Central Java Province on 3.99% with ceteris paribus assumption.

While for unemployment has positive and insignificant effect on 5% with coefficient 0.079711 and probability 0.7635 which is 5% bigger than real level. Thus, unemployment does not affect credit funds distribution of Persero Central Java Province.

Inflation has positive and significant effect on 5% real level with coefficient of 0,007196 with probability equal to 0,0412. This indicates that if inflation has increased by 1% , so has credit funds distribution by 0,007%.

The influence of Gross Regional Domestic Product (GDRP) toward Distribution of Credit Funds of Persero in Central Java Province Year 1984-2013, based on the estimation result on the variable of Gross Regional Domestic Product (GDRP), there is positive and significant effect to the distribution of credit fund of Persero in Central Java Province. Increasing GRDP can positively increase public consumption. In other words, as if society improves its consumption, then investors and entrepreneurs will expanse their business by increasing their production of goods and services as well as increase the company's own goods and also supplies. Forasmuch as, these expenditures requires a lot

of funds. In order people can cover their needs or even companies that want to increase their production, it requires a certain amount of cash. Above all, this is the opportunity for Pawnshops Company to increase its lending. The increasing of demand both consumption and production increases demand for credit Pawnshops to fulfil the needs.

The results of this study is in line with the theory of economic basis proposed by Harry W. Richardson (1973). He states that the main determinant of economic growth of a region is directly related to the demand for goods and services from other region. The increasing of demand for goods and services can increase the production of goods and services made by the company. Consequently, the company needs a lot of money for the cost in increasing the production of goods and services. Indeed, this is the opportunity for Pawnshops to distribute its funds to companies and communities.

The Influence of Unemployment toward Distribution of Credit Funds PT. Pegadaian (Persero) Central Java Province Year 1984-2013, based on the estimation results on unemployment variable, there is no effect to credit funds distribution of Persero in Central Java Province. However, unemployment causes public become unable to maximize the level of prosperity which may be able to achieve though, hamper economic growth, the economy becomes unstable, and people lose their jobs, create socio-economic and political instability and also increase poverty (Prasetyo, 2009: 230). An

unemployed person should reduce his consumption expenditure. Since he has no income, if he takes credit then he has to cut corner in certain period after taking. It is done in order to redeem the goods he has mortgaged. An unemployed certainly will have a thought to how to redeem the good he has mortgaged and he becomes hesitant because if it is not redeemed then it will be auctioned by the pawnshop. As a matter of fact, most people who demand credit in pawnshops are pressured by urgent needs, facilitating transactions such as hiring employees and buying raw materials, or for speculative purposes that require funds to buy securities. Afterwards, unemployment has no effect on the distribution of credit funds of pawnshops.

The Influence of Inflation toward Credit Funds Distribution of Persero in Central Java Province Year 1984-2013, based on the estimation result at variable of inflation rate, it is found that it has positive and significant influence toward credit funds distribution of Persero in Central Java Province. High inflation leads to increased production costs and obviously it complicates the business world as it costs more. Increased inflation also means as an increased prices of goods and services. As a result it makes people need funds to meet / cover their consumption needs. In other words, when prices is grown up then people have to pay more to buy goods and services. The higher price level is, more people need the funds to meet or cover their consumption costs, so do the entrepreneurs. Thus, it is the chance for Pawnshops Company.

In line with Rifai (2007), inflation strongly influences to credit demand, because it also means price increases. The rising price, then someone will try to cover his needs. Furthermore, to do that, someone can apply credit demand by using the assumption of real interest rates. Therefore, if the inflation increases so credit demand does.

This study is accordance with theory of inflation from the quantity theory's point of view, that is the amount of money demanded by society for transactions depends on the level of prices of goods and services available. The higher the price level the higher the amount requested.

When the value of money is high, then the price level will be low, and when the value of money is low, then the price level will be high, and vice versa.

The Influence of GRDP, Unemployment, and Inflation toward Distribution of Credit Funds of Persero in Central Java Province Collectively, based on the result of F-statistic test on all independent variables namely GRDP, unemployment, and inflation collectively, it is found that those have positive and significant influence toward the distribution of credit funds of Persero in Central Java Province.

CONCLUSIONS

Based on the results of research and discussion above, gross regional domestic product (GRDP) has a positive and significant impact on distribution of credit funds of Persero in Central Java Province. While unemployment does not affect credit disbursement of Persero in Central Java Province. Similar with GDRP, inflation has also a positive and significant impact on distribution of credit funds of Persero in Central Java Province. In conclusion, gross regional domestic product (GDRP), unemployment, and inflation variables simultaneously affect distribution of credit funds as well as its influence is positive and significant.

Regarding to conclusion above, then the suggestions are first for Persero. This company is expected to distribute its funds well, so it can perform its operational activities maximally and able to stimulate economic growth. Meanwhile, the increased GRDP and inflation can increase demand for credit to cover the needs of the community for both consumption and production. Hence, it is pawnshops' opportunity to increase its lending disbursement. I recommend Persero to enhance its role as a leading provider of instant funds and trustworthy so it can serve low-income people, including unemployed or looking for jobs people by receiving guaranteed assets, easing interest rates, and providing longer periods of time. Therefore, low-income people can avoid the practice of loan sharks and other unnatural loans.

Second, for researchers who want to conduct research about the distribution of credit funds at Persero should be able to use other variables that are suspected still influencing, such as gold price, interest rate, income level, customer number, service quality, and so on.

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