

MICROCREDIT FINANCING IN IMPROVING THE DEVELOPMENT OF SMALL AND MEDIUM MICRO ENTERPRISES (MSMEs)

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ARTICLE INFORMATION

Publication information
Research articles

HOW TO CITE

Sari, M., & Fitriani, W, (2024). Micro Credit Financing in Improving the Development of Small and Medium Micro Enterprises (MSMEs). *Current Issues & Research in Social Sciences, Education and Management*, 2(2), 229-240.

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Received: 3 July 2024
Accepted: 1 August 2024
Published: 2 September 2024

ABSTRACT

This research aims to investigate and assess the influence that microcredit funding has on the growth of micro, small, and medium-sized businesses (also known as MSMEs). This research takes an associative approach to its methodology. This study's population included all taxpayers registered at the PT Pegadaian Helvetia Branch Office. Participants from the PT Pegadaian Helvetia Branch Office were recruited for this study, and the Slovin formula was utilized to analyze their responses. In order to collect data for this study, the researchers utilized both observational methods and questionnaires. This investigation uses a quantitative data analysis approach involving statistical analysis, analysis of outer models, analysis of inner models, and testing hypotheses. The data processing for this study is carried out with the help of the PLS (Partial Least Square) tool. The research outcomes at the Helvetia Branch Office of PT Pegadaian illustrate the significant impact that microcredit financing plays in the growth of micro, small, and medium enterprises (MSMEs).

Keywords: Micro Credit Financing, Development of Micro, Small and Medium Enterprises (MSMEs)

INTRODUCTION

In order to tackle the problem of economic and social inequality, a strategic strategy is to promote the development and progress of small businesses with distinct characteristics, such as simple technology and the capacity to provide job opportunities. This will facilitate the attainment of fair and balanced business opportunities and the equal distribution of income. (Hanum, 2013) MSMEs play a vital role in the national economy. Micro, Small, and Medium Enterprises (MSMEs) are of great importance in the national economy since they possess the capacity to reduce unemployment and poverty. The expansion of small and medium-sized firms (SMEs) has attracted considerable attention from many stakeholders, such as the government and the general public. The function of SMEs is important as it may encourage a wide range of efforts to improve and promote SMEs, therefore boosting the community's well-being through numerous methods. One way to assist SMEs is by offering them financial help in the form of business capital finance (Hani & Fauzi, 2017).

Small and medium enterprises (SMEs) are the dominant industries employing a significant workforce. Improving the competitiveness of small companies directly contributes to enhancing the well-being of the people and lowering economic inequality, considering the substantial income gap between large entrepreneurs and SMEs (Saragih & Hafsa, 2017).

Micro, Small, and Medium Enterprises (MSMEs) play an active role in investment activities to enhance the productive sector. They are vital to the Indonesian economy (Julita & Sari, 2015). According to the Ministry of Cooperatives and Small and Medium Enterprises, MSMEs represent 99% of all business types in Indonesia, contributing to job creation and unemployment reduction. Despite their importance to Indonesia's economy, MSMEs require considerable management effort, particularly in corporate finance management. Maintaining financial records is a crucial business component, yet many MSME owners often need to pay more attention to it. Keeping track of all business revenues and expenses is essential for monitoring business operations, determining profitability, and the capital utilized (Isna Ardila et al., 2022).

Medan ranks among the top ten cities in Indonesia's 37 provinces regarding the number of MSMEs. MSMEs in Medan are increasingly innovative and creative, leveraging the ease of digitalization. In response, the Medan City Government, through the Medan City SME Cooperative Office, launched the Medan City SME Cooperative Products Go Digital initiative. This initiative aims to boost sales, facilitate raw material procurement, and simplify product marketing, addressing the challenges MSME players face, especially during the COVID-19 pandemic (Marpaung et al., 2021).

In the post-COVID-19 era, Indonesia views MSMEs as essential for maintaining economic competitiveness. MSMEs persist in unpredictable economic conditions primarily due to the consistent demand for their products and services.

Pegadaian provides financial services to low-income individuals needing immediate cash. Governed by Government Regulation No. 10 of 1990, which established Perum Pegadaian, PT Pegadaian (Persero) is a state-owned enterprise (BUMN) responsible for financial operations, including funding pawnshops. PT Pegadaian aims to support economic programs by offering loans based on pawn law, assisting economically disadvantaged groups and small entrepreneurs, and preventing exploitation by loan sharks with high interest rates. Pawnshops enable individuals with limited funds to securely and efficiently meet their financial needs using collateral. Tasirileleu & Susanto (2023) say the pawnshop's motto is "solving difficulties without problems."

The main goal of the company is to generate a profit. Profit is the outcome of deducting expenses from revenue. It acts as a way to gauge the resources put in (shown as expenses) and the results achieved (shown as revenue). According to Rialdy (2017), a rise in profits for a corporation suggests that the management has effectively and efficiently utilized the company's resources.

Utilizing the funding options provided by banks and non-bank financial organizations can greatly enhance the business growth of MSMEs. Pegadaian's finance solutions, known as KREASI, are designed to greatly facilitate small and medium company owners acquiring capital for their business expansion. KREASI is a financial instrument tailored for MSMEs that can offer collateral in the form of BPKB and Gold. The car has been returned to its owner for further use in company operations to meet its needs. When providing financing, conducting thorough data analysis and surveys is crucial to determine the client's ability to repay the credit they are granted. The pawnshop provides a loan capital with a 1% interest rate for a 15-day duration. You can repay the loan in monthly instalments for 12, 18, 24, or 36 months. The business has been running for one year. Customers can effortlessly and promptly participate in the KREASI business process by submitting proof of personal identity and utilizing movable goods as collateral. Customers increasingly seek to engage in KREASI business operations as advancements occur daily.

PT Pegadaian (Persero) plays a crucial role in supporting marginalized groups by helping them navigate the challenges of market competitiveness. In order to succeed in a competitive market, economic actors must have unique skills that allow them to navigate the market effectively. The variation in this aspect is primarily determined by their level of authority in managing the quantity and quality of production resources. Given these circumstances, PT Pegadaian (Persero) plays a vital role by providing financial resources through a customized system that meets its needs. PT. Pegadaian (Persero) strives to provide capital loans or credit with simplified requirements and a streamlined process, as reflected in their slogan of "solving problems without problems" (Faramita & Tanjung, 2019).

Although the process is already quite simple and fast, many people still seek assistance applying for microcredit at PT Pegadaian. In addition, people hesitate to use PT Pegadaian's services to obtain loan capital. The community finds PT Pegadaian's approach to offering microcredit overly complex, much like other financial institutions. PT Pegadaian aims to support economic development by providing loans based on pawn legislation to small communities, helping them avoid high-interest borrowing.

Pawnshops are essential in supporting and fulfilling local communities' needs, thus significantly contributing to economic growth. Our main focus is providing pawn finance as a non-bank financial institution specialising in financing services. Financing is a crucial task for financial institutions, as they provide funds to meet the needs of individuals or organizations experiencing a shortage of finances. PT Pegadaian provides credit options for individuals and businesses looking for financial support for their daily expenses and company growth. PT Pegadaian aims to provide financial assistance to individuals in the lower economic class, specifically small business owners, by offering loans to help them sustain their business operations. PT Pegadaian also provides finance services. There is a loan option tailored specifically for micro, small, and medium companies (MSMEs) that you can consider.

Various internal and external factors influence the decision to offer KREASI credit by the Pegadaian Medan Utama Branch as a financing institution. This aims to minimize the risk of loans not being repaid and prevent any misuse of the credit provided, encompassing both its use and repayment. The Pawnshop's effective implementation of the 5C concept (Character, Capacity, Capital, Collateral, and Condition Of Economy) in credit giving showcases their strong understanding of internal components.

PT Pegadaian (Persero) has disbursed microcredit in compliance with established rules and procedures. These procedures encompass the first introduction and engagement with prospective borrowers, the microcredit application process, and the authentication of borrower information. Once the credit department has identified the data, it can be approved or denied. We must ensure that we furnish the consumer with all the necessary information they have requested. Upon completion of the interview by the credit department, a thorough assessment of the debtor is conducted. Subsequently, the credit department will assess the debtor to ascertain the approval or rejection of the

credit to be issued. The credit department will provide a letter of approval to the potential borrower after the application has been approved. Subsequently, they will proceed with formalising a credit agreement and procuring the collateral or guarantee. If the financial institution does not approve the application, the credit department will create a denial letter and send it to the consumer.

The applicant's organization must know the necessary procedures, including preparing considerable paperwork. Per the applicant's statement, the firm has been operating effectively for at least one year and possesses the necessary legal documentation (SIUP/SITU/Business Certificate). Entrepreneurs who operate a retail enterprise, rather than engaging in piecework labor, are eligible to get financial support for their microbusiness. These firms meet the criteria for being surveyed and can regularly operate their business without intermittent labor for at least one year. Moreover, the process necessitates around one month to be fully executed.

LITERATURE REVIEW

Micro, Small and Medium Enterprises

According to Article 1, paragraph 1 of Law No. 20/2008 on MSME, micro-enterprises are defined as productive businesses owned by individuals or entities that meet specific criteria outlined in the law. Microcredit is a lending designed to empower individuals with limited financial resources, enabling them to start businesses. This form of credit is intended for those who need more collateral, stable employment, or a reliable credit history to access traditional credit. Microcredit is crucial to microfinance, offering essential financial services to impoverished individuals. As stated in TAP MPR No. XVI/MPR/RI/1998, which addresses economic policy and democracy, MSMEs play a vital role in the national economy. Therefore, they must be prioritized in terms of opportunities, support, protection, and development to align with the economic interests of the general population while recognizing the importance of large businesses and State-Owned Enterprises.

MSMEs are dynamic and efficient enterprises run by individuals or commercial entities across various economic sectors. Businesses are generally classified based on initial asset value (excluding land and buildings), average annual turnover, or the number of permanent employees (Hafsah & Hanum, 2021). Law Number 9 of 1995, revised as Law No. 20 of 2008, also defines MSMEs. Micro Enterprises are production businesses owned by individuals or entities that meet specific criteria. At the same time, Small Businesses are independent and productive economic enterprises operated by individuals or legal entities that are not subsidiaries.

MSMEs are economic enterprises owned and controlled by individuals or business entities that are not subsidiaries or branches of larger companies. These enterprises are not associated with any particular business size in terms of net worth or annual sales, as defined by the law (Dahrani et al., 2022). Operators of MSME firms must have a strong grasp of accounting principles to drive the growth and development of MSMEs (Fitriani et al., 2023). Rialdy & Hasibuan (2023) suggest that MSMEs must showcase innovation and adaptability to overcome their current challenges as community business units. Microcredit is the provision of credit to micro business customers, mainly individuals facing financial challenges, as explained by the coordinating minister for People's Welfare and the Governor of Bank Indonesia. These micro businesses are subject to a maximum loan limit of IDR 50 million, as determined by the BPS.

Credit

The term "credit" comes from the Latin word "creditus," which is the past participle of "credere," meaning to have confidence or faith. Trust is relying on or having confidence in someone or something. It gives clients confidence that the credit has been properly handled and will be repaid as agreed upon. For individuals who receive credit, it involves

building trust and the responsibility to repay the debt within a set period. As per Tobing's research (2018), the creditor in a precredit relationship trusts the debtor's ability to repay the credit promptly and by the agreed-upon terms. According to Kasmir (2018), credit is the provision of funds or bills equivalent to money based on a contractual agreement or loan between banks. The borrower must repay the borrowed amount and interest within a specified period. According to Detyena and Dona (2023), credit is the ability to obtain goods or services through a loan and agree to repay it within an agreed timeframe. The debtor's credit guarantee to the bank is an extra precaution to protect against possible defaults caused by a disaster. Nevertheless, before granting credit, a comprehensive investigation is carried out to verify the debtor's creditworthiness. The credit guarantee primarily functions as a precautionary measure. Therefore, when granting credit, banks must carefully follow the necessary lending criteria (Kasmir, 2018). As a responsible bank, verifying the repayment of the credit before granting a credit facility is necessary. This confidence stems from the credit assessment results conducted before the credit is disbursed. Banks have multiple methods at their disposal to assess creditworthiness and build trust in the borrower.

According to Kasmir (2018), the loan-giving process relies on two key indicators: trust and the contract. Tobing (2018) states that several indicators are employed in the banking industry to assess the creditworthiness of borrowers.

1. Trust principle
Credit manifests the creditor's confidence in the debtor's ability and intention to repay the obligation.
2. Precautionary principle
It is a manifestation of the concept of trust in a lending agreement.
3. 5C Principle
 - a. Capacity: The applicant's ability to manage, lead, and excel in their business field, demonstrating seriousness and a forward-looking perspective to ensure the business runs well and is profitable.
 - b. Collateral: Assets can be pledged as security to guarantee repayment if the credit recipient defaults on the debt.
 - c. Capital: The financial resources of the credit applicant, who requires bank assistance to develop their business.
 - d. Character refers to the credit applicant's personality, morals, and honesty.
 - e. Condition of the Economy: The economic situation at a specific time affects the bank's decision to grant credit to the applicant.
4. 5P Principle
 - a. Protection: Analyzing the means of protecting the creditors' interests.
 - b. Purpose: Analyzing the intended use of the credit by prospective debtors.
 - c. Parties: The classification of prospective debtors into various groups based on their character, capacity, and capital.
 - d. Profitability: Assessing the prospective debtor's ability to generate profit in their business.
 - e. Payment: Evaluating the source of repayment from the prospective debtor.
5. The 3 R's Principle
 - a. Return: Assessing the results the borrowing company expects to achieve after receiving credit.
 - b. Repayment: This involves considering the debtor's repayment schedule and credit payment period while ensuring the company's operations continue smoothly.
 - c. Risk: Evaluating the debtor company's ability to manage risk and determining whether the company's risk level is high or low.

Microcredit Creation

Microbusiness loans are vital for micro-entrepreneurs, providing financial support for their investments and working capital needs. We aim to help these businesses by providing the capital required to establish a stable and profitable revenue stream.

Tasirileleu and Susanto (2023) describe microcredit as the extension of credit or financing by banks to microbusiness clients classified as poor or near-poor according to BPS criteria. These enterprises are usually owned and operated by individuals, with the upper limit for microcredit set at Rp. 50,000,000.

Conceptual Framework

MSMEs are businesses run by individuals or a group of individuals with a certain amount of capital. They establish a company to generate profit while developing flexible business processes. The government has consistently prioritized MSMEs, especially as their growth has been amplified by their resilience in the face of the global crisis. In addition, MSMEs play a significant role in the economy by promoting job creation, driving the growth of the Gross Domestic Product (GDP), and boosting national exports and investments. MSMEs play a crucial role in various economic sectors, such as farming, fishing, animal husbandry, mining, craftsmanship, trading, and service provision. (Ningsih & Saragih, 2020)

Working capital loans are designed to support small and medium-sized entrepreneurial customers in growing their businesses by providing various financing options for their working capital needs. Working capital loans are available for a maximum of 1 year, subject to the business's assurance. Working capital loans, also called SME working capital businesses, benefit all parties involved. To achieve success, clients contribute financially to the company (Tasirileleu & Susanto, 2023). According to the research conducted by Karsa et al. (2023) and Wanita et al. (2021), it has been found that Pawnshop Micro Credit Financing (KREASI) significantly influences the growth and development of MSMEs.

RESEARCH METHOD

The research methodology applied in this study is associative, presenting data in quantitative form obtained through testing and analysis to calculate numerical values and draw conclusions. The study aims to assess the impact of Pegadaian Micro Credit Financing (KREASI) on the growth of Micro, Small, and Medium Enterprises (MSMEs) at the PT Pegadaian Helvetia Branch Office. The research sample comprised 157 MSMEs that received funding from the Helvetia Branch Pawnshop. A sample, a subset of the population, is selected to represent the entire population in the study.

In this research, Suryani and Hendrayani (2015) highlight the importance of carefully choosing and analyzing the sample to conclude the entire population. The sample size was determined using the Slovin formula, as outlined by Sugiyono (2019), to ensure representativeness and enable generalization of the findings. The Slovin formula, which considers a desired error rate of 10% and a confidence level of 90%, allows for simple calculations without needing a sample size table.

$$n = \frac{N}{1 + Ne^2}$$

n: Sample size

N: Population size

e: Allowance for inaccuracy due to tolerable sampling error (the error rate taken in this sampling is 10%)

then it can be calculated $n = \frac{157}{1 + 157 \times 0,1^2} = 61.08 = 61$ UMKM

A questionnaire was used to collect data from 61 MSMEs that received Creation grants from the Helvetia Branch Pegadaian. The study employed a quantitative approach and statistical analysis using the partial least square-structural equation model (PLS-

SEM). This model, used for path analysis with latent variables, is known as the second generation of multivariate analysis (Gozali & Latan, 2014). Structural equation modeling (SEM) allows simultaneous evaluation of measurement and structural models. Measurement models assess test validity and reliability, while structural models examine causation through hypothesis testing.

RESULTS

Measurement Model Analysis (*Outer Model*)

1. Convergent Validity

Convergent validity evaluates the extent of positive correlation between a measurement and other assessments of the same construct. An indicator's legitimacy is determined by its outer loading value, with values above 0.7 considered valid (Hair Jr. et al., 2017).

Table 1. Convergent Validity

	Micro Credit Financing (KREASI)	Development of Micro, Small and Medium Enterprises
X1	0,804	
X2	0,778	
X3	0,845	
X4	0,725	
X5	0,783	
X6	0,844	
Y1		0,818
Y10		0,823
Y11		0,851
Y12		0,746
Y13		0,703
Y14		0,842
Y15		0,866
Y2		0,787
Y3		0,837
Y4		0,832
Y5		0,801
Y6		0,814
Y7		0,847
Y8		0,846
Y9		0,835

Source: SEM PLS (2024)

Based on the data presented in the table, it is clear that the outer loading value for the Pawnshop Micro Credit Financing (KREASI) variable is above 0.7. This suggests that all indicators related to the Pawnshop Micro Credit Financing (KREASI) variable are deemed valid. With an external loading value exceeding 0.7, it is evident that all indicators associated with the variable of Micro, Small and Medium Enterprises Development are valid.

2. Internal Consistency Analysis

Internal consistency analysis assesses the reliability of test items and the uniformity of measurements. It uses composite reliability values with a threshold of 0.600, indicating dependability (Hair Jr. et al., 2017).

Table 2: Internal consistency analysis

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Micro Credit Financing (KREASI)	0,885	0,888	0,913	0,636
Development of Micro, Small and Medium Enterprises	0,964	0,966	0,968	0,668

Source: SEM PLS (2024)

The internal consistency study shows that the Pawnshop Micro Credit Financing (KREASI) variable has a composite reliability of 0.913, and the Micro, Small and Medium Enterprises Development variable has a composite reliability of 0.968. Both exceed the 0.600 thresholds, indicating their reliability.

3. Discriminant Validity

Discriminant validity assesses the accuracy of an indicator for a construct, with the Heterotrait-Monotrait Ratio of Correlation (HTMT) needing to be below 0.90 to ensure validity (Hair Jr. et al., 2017).

Table 3. Discriminant Validity

	Micro Credit Financing (KREASI)	Development of Micro, Small and Medium Enterprises
Micro Credit Financing (KREASI)		
Development of Micro, Small and Medium Enterprises	0,777	

The data shows an HTMT value of 0.777 between the Pegadaian Micro Credit Financing (KREASI) and the Development of Micro, Small, and Medium Enterprises variables, indicating a significant and valid correlation.

Structural Model Analysis (Inner Model)

The test involves two stages: assessing direct effects and examining indirect influences. Below are the route coefficients for hypothesis testing:

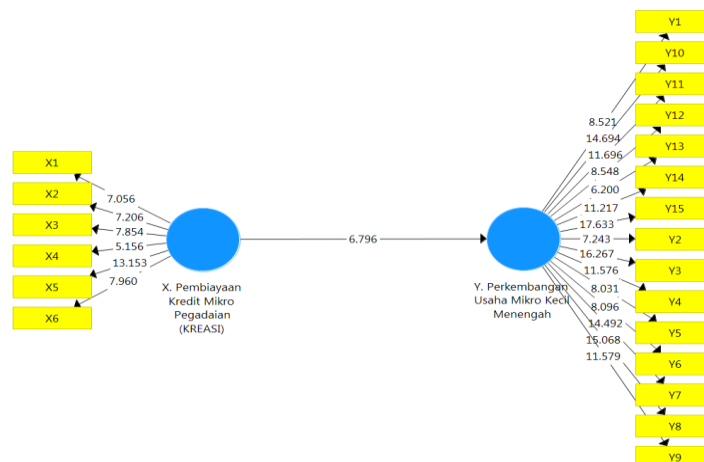


Fig 1. Hypothesis Testing

Hypothesis Testing

Direct effect hypothesis testing evaluates the direct impact of one variable on others without intermediaries.

Table 4. Hypothesis Testing

	Original Sample (O)	Sample Average (M)	Standard Deviation (STDEV)	T Statistic (O/STDEV)	P Values
Micro Credit Financing (KREASI) -> Micro, Small and Medium Enterprises Development	0,724	0,727	0,106	6,796	0,000

Source: SEM PLS (2024)

The table shows that Pawnshop Micro Credit Financing (KREASI) significantly affects the Development of MSMEs, with a path coefficient of 0.724 and a P-value of 0.000, indicating a crucial role in their growth.

2. R Square

The Coefficient of Determination (R Square) assesses prediction accuracy by evaluating how changes in the independent variable affect the dependent variable in a path model (Hair Jr. et al., 2017).

Table 5. R-Square

	R Square	Adjusted R Square
Y, MSME Development	0,524	0,516

Source: SEM PLS (2024)

The table shows that Pegadaian Micro Credit Financing (KREASI) and Main Duties and Functions (Tupoksi) significantly impact the growth of MSMEs, with a coefficient of 0.524, indicating a 52.4% influence.

Discussion

The path coefficient of 0.724 and a P-value of 0.000 indicate a strong and significant effect of Pegadaian Micro Credit Financing (KREASI) on the growth of MSMEs at the PT Pegadaian Helvetia Branch Office.

The study underscores the role of Pegadaian Micro Credit Financing (KREASI) in supporting the expansion of MSMEs in Helvetia, highlighting its importance in providing crucial start-up capital through PT Pegadaian (Persero) Helvetia Branch.

MSMEs, run by individuals or groups with varying financial resources, aim to generate profit and adapt business processes. They are vital to the economy, driving job creation, GDP growth, and national exports. MSMEs are essential across agriculture, fishing, animal husbandry, mining, craftsmanship, trade, and services (Ningsih & Saragih, 2020).

Working capital loans are intended to help small and medium-sized enterprises grow their businesses through various financing options, with a maximum term of 1 year, depending on the business's collateral. These loans, also known as SME working capital loans, benefit all parties involved by providing financial support for business progress (Tasirilelu & Susanto, 2023).

Research by Karsa et al. (2023) and Nur Wanita et al. (2021) highlights the significant role of Pawnshop Micro Credit Financing (KREASI) in promoting the growth of MSMEs.

Despite this, there has been a decline in MSMEs seeking microcredit finance (KREASI) from the PT Pegadaian Helvetia Branch Office. The government has been focusing on advancing the MSME sector since 2000 through a lending program that has evolved over time and involved multiple ministries. The MSME sector remains crucial in Indonesia's economic landscape.

There is a noticeable reduction in MSMEs applying for microcredit (KREASI) at the PT Pegadaian Helvetia Branch Office. Support is essential to help businesses navigate

the slow growth in the MSME sector.

Pegadaian offers Creation credit to individuals using pawn services to address financial challenges, particularly benefiting micro, small, and medium enterprises (MSMEs) seeking business expansion. This credit is collateralized and designed to meet specific funding needs, requiring at least one year of business operation for eligibility (Sondakh et al., 2023).

However, the lengthy application process for Pegadaian Micro Credit (KREASI) has led clients to seek alternative lenders such as banks. Although the KREASI loan process can be complex, using a motorcycle or car's BPKB as collateral simplifies it, allowing continued vehicle use during the application. The process is quick, flexible in repayment, and includes discounts for capital leases. Kreasi services are accessible at Pegadaian outlets and through agents across Indonesia.

Kreasi products face challenges including higher capital rents compared to bank interest rates, the need for valuable movable goods as collateral, and the requirement to surrender pawned items, which are then unusable during the pawn period. Consequently, customers in Helvetia opt for faster and more convenient alternatives offered by banks and cooperatives.

Due to the COVID-19 epidemic, the number of MSMEs is decreasing on an annual basis, which has resulted in the closure of numerous MSMEs. COVID-19 has had a considerable influence on MSMEs. During the outbreak, a number of MSMEs were forced to shut down due to the deployment of measures to restrict human movement to prevent the spread of COVID-19. This is evidenced by the fact that the production of the micro and small industries (IMK) sector would see a negative increase throughout the year 2020. The output of IMK increased by 17.63% compared to the previous year. A decrease in growth of this magnitude has yet to be observed in previous years.

Furthermore, in addition to the decline in performance, several IMK businesses could not endure the effects of the pandemic. The adoption of the PPKM policy, which was initially initiated around the beginning of the pandemic and later strengthened during the succeeding wave of COVID-19, had a greater severe influence on MSMEs. As a result of the COVID-19 preventative program, 19.3 per cent of MSMEs were compelled to close their doors, as shown by a survey made by the Mandiri Institute. As an additional point of interest, during the PPKM era, 47 per cent of MSMEs decreased their activity (Sarmigi, 2020).

CONCLUSION

The study findings indicate that Pegadaian Micro Credit Financing (Kreasi) significantly supports the growth of MSMEs at PT Pegadaian Helvetia Branch Office. Based on these insights, the authors recommend streamlining the KREASI application process to retain clients and reduce their reliance on alternative financing options such as banks. PT Pegadaian Helvetia Branch should ensure it meets the KREASI program standards and develop a user-friendly payment policy to attract more MSMEs to participate in the program.

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