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Impact of Ultramicro Holding on Financial Performance and Business Sustainability

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Abstract

In order to encourage sustainable economic growth, the Government is trying to revive the Medium, Small and Micro Enterprises (MSMEs) and Ultra Micro (UMi) sectors, through the Ministry of SOEs. The presence of the UMi program through ultra-micro holding is expected to drive the development of micro-enterprises by providing easier access to financing, reduce poverty levels, improve community welfare, and contribute to sustainable national economic growth. The purpose of this study was to determine the impact of holding ultra-micro BRI, Pegadaian, and Reduction of State Capital (Pengurangan Modal Negara/PNM) on financial performance and business sustainability at BRI. The research method used is literature review with a qualitative approach and the data source used is secondary data. The data collection technique is done by means of documentation, namely data collection techniques through written materials published by the institution that is the object of research. The analysis technique is by data reduction, data presentation, and conclusion drawing. The results showed that the existence of ultra-micro holding had a real impact on increasing BRI's profit, showing the success of the integration strategy in supporting the growth and sustainability of BRI's business in the MSME sector.

Keywords

Integration Strategy, Financial Performance, Business, Sustainability

1. Introduction

In order to encourage the sustainability of economic growth and national development, the government is striving to stimulate the medium, small, and micro enterprises (MSMEs) and ultra-micro sectors through the Ministry of State-Owned Enterprises (*Badan Usaha Milik Negara/BUMN*) by privatizing the programs of several State-Owned Enterprises (SOEs). This is being done by creating an ultra-micro ecosystem popularized as the Ultra Micro Financial Sector SOE Holding, or Ultra Micro Holding. This Ultra Micro Holding involves three SOE entities: PT Bank Rakyat Indonesia (BRI), PT Pegadaian, and PT Permodalan Nasional Madani (PNM). The Ultra Micro Holding initiated by the Ministry of BUMN has received approval from various high state institutions, including the President as the Executive Institution and the House of Representatives (*Dewan Perwakilan Rakyat Republik Indonesia / DPR RI*) as the Legislative Institution (Atmojo & Suryatomo, 2021).

In their development, micro and small entrepreneurs often face various obstacles, including capital and access to financing. To provide easy and quick financing access for the lowest-tier micro entrepreneurs, the Indonesian government launched the Ultra Micro Financing (UMi) program in 2017. According to the 2017 Financial Note book, the UMi financing program was initiated due to the limited number of MSMEs facilitated by the existing government program, People's Business Credit (KUR). The KUR program has served 12.3 million out of 59.1 million MSMEs recorded by BPS, leaving 46.8 million or 79.2% of MSMEs unable to access KUR. Therefore, in 2017, the government revitalized the Public Service Agency in the field of the Government Investment Center (*Pusat Investasi Pemerintah / PIP*), which was appointed as the funding coordinator with a special scheme for MSME financing known as the UMi financing program. The UMi program is expected to develop micro-enterprises, reduce poverty levels, improve community welfare, and contribute to national economic growth (Basuki & Rezki, 2023).

Ultra-Micro Financing (UMi) is provided by non-bank financial institutions. The KUR program has been in place for a long time, starting during the presidency of Susilo Bambang Yudhoyono, whereas the UMi program began in 2017, marked by the Minister of Finance Regulation (*Peraturan Menteri Keuangan / PMK*) Number 22 of 2017 concerning the Ultra Micro Financing Program (Karsa et al., 2023). The target of the UMi financing program is the lowest economic class, which consists of entrepreneurs who are feasible but not bankable, making them unattractive to banks. Additionally, the UMi segment's characteristic is that customers can receive UMi financing either in groups or individually. Individual debtor financing may require collateral, while group debtor financing does not require collateral but employs a joint responsibility scheme. Another characteristic is that the majority of UMi entrepreneurs do not have business licenses and do not meet most banking requirements (Krisnawan, 2022).

Previous research conducted by Basuki & Rezki (2023) stated that UMi financing has a positive and significant impact on business performance, indicated by sales, business profits, and business assets. The estimation results with instrumental variables also show that UMi financing is positively associated with sales and business profits. Unlike previous research, the novelty of this study is that it focuses on analyzing the interaction between the holding structure, operational efficiency, collaboration and synergy, and the impact of regulations on BRI's financial performance in this context.

The government has issued Government Regulation (PP) No. 73 of 2021 concerning the Addition of State Equity Participation of the Republic of Indonesia into the Share Capital of PT Bank Rakyat Indonesia Tbk or BRI. The provisions in this regulation serve as guidelines for the implementation of the formation of the

Ultra Micro (UMi) Holding for three SOE entities: Pegadaian, PNM, and BRI. With the establishment of this Ultra Micro (UMi) Holding, it is expected to enhance the growth of micro enterprises and national economic growth. Therefore, this research aims to determine the impact of the ultra-micro holding of BRI, Pegadaian, and PNM on BRI's financial performance and business sustainability.

2. Research Method

The research method used in this study is a literature review with a qualitative approach. The literature review method involves a series of activities related to the collection of library data, reading and recording, as well as processing research materials. Meanwhile, qualitative research is a process of understanding human or social phenomena by creating a comprehensive and complex picture that can be presented in words, reporting detailed views obtained from informant sources, and conducted in a natural setting (Adlini et al., 2022). The data source used is secondary data with data collection techniques through documentation. Documentation study can be defined as a data collection technique through written materials published by institutions that are the objects of the research (Yusra et al., 2021). The analysis techniques include data reduction, data presentation, and drawing conclusions.

3. Discussion

In the growth and development of Indonesia's economy, the Micro, Small, and Medium Enterprises (MSMEs) sector is often considered to play a very important role. This is due to the fact that the majority of Indonesia's population has a low level of education and participates in small businesses in both traditional and modern sectors. Additionally, MSMEs are known as one of the sectors capable of absorbing a large amount of labor (Nuari, 2017). In this regard, the government has increasingly shown its support for MSMEs with various policies aimed at enhancing the role and contribution of MSMEs in the national economy. This support includes various aspects such as providing access to financing, technical assistance, as well as guidance and training for MSME actors (Makhliis, 2018).

One of the important aspects in the development of MSMEs in Indonesia is the support from the banking sector, particularly in terms of extending credit to MSMEs. MSME credit refers to the credit facilities provided to debtors who meet the established definitions and criteria for MSMEs. The definition of MSMEs usually includes parameters such as net worth limits and annual sales results (Rura et al., 2023). On the other hand, banking institutions play a very important role in economic development in Indonesia. They not only provide safe money storage services through savings for the public but also offer credit facilities to business actors, including MSMEs.

Banks as financial institutions, have a dual function in managing public funds. First, they collect funds from the public through various savings and investment products. Second, banks are also responsible for channeling these funds back to the public in the form of loans or credit. In extending credit, banks play a crucial role in financing the national economy, acting as drivers for sustainable economic growth, thereby creating jobs through the expansion of production and encouraging new businesses (Dwiastuti, 2020).

To maximize the role of financial institutions and to keep up with other developing countries, the government has proposed the establishment of a state-owned holding company (Mentari & Wulandari, 2019). The term holding company refers to a corporate entity that owns a portion of the shares of several other companies. A holding company is a combination or arrangement of various corporations that are juridically independent but closely related to each other, forming an economic unit managed by a central leadership, namely the parent

company. The initial idea behind the formation of a holding company, particularly in the context of restructuring State-Owned Enterprises (SOEs), is to optimize management. SOEs themselves are business entities that operate in specific fields, generally concerning public interest, with significant government involvement, at least as the majority shareholder (Harianja, 2021).

One of the main objectives of establishing a holding company for state-owned enterprises (SOEs) is to increase the business capacity of sectoral companies, thereby providing greater benefits to the country. This is expected to be achieved through increasing the company's value, enhancing competitiveness through more competitive business practices, and creating synergy among the various SOEs included in the holding company. With the synergy created, it is hoped that SOEs can operate more efficiently, generate more added value for the national economy, and compete better in both domestic and international markets (Harjanja, 2021).

One of the formations of the State-Owned Enterprises (SOE) holding company is in the Ultra Micro sector. In this structure, PT Bank Rakyat Indonesia (BRI) is designated as the parent holding company, overseeing two subsidiaries, PT Pegadaian and PT Permodalan Nasional Madani (Sadzili & Gutom, 2024). The formation of the Ultra Micro holding is based on Government Regulation (PP) Number 73 of 2021. This regulation governs the increase of state equity participation in the share capital of PT Bank Rakyat Indonesia Tbk. The aim of this regulation is to strengthen BRI's capital structure and enhance its business capacity (Atmojo & Suryoutomo, 2023).

The Ultra Micro Holding, involving three State-Owned Enterprises (SOEs), has been officially established. This formation was marked by the signing of the Deed of Inbreng of government shares in Pegadaian and (*Pengurangan Modal Negara / PNM*) as state equity participation to BRI as the parent company in Jakarta. The signing was carried out by the Minister of SOEs Erick Thohir and the President Director of BRI Sunarso, and attended by the President Director of Pegadaian Kuswiyoto, the President Director of PNM Arief Mulyadi, and the Vice President Director of BRI who is also the Head of the Project Management Office (PMO) of the BRI Privatization Team Catur Budi Harto (Purnama, 2022). Minister of SOEs Erick Thohir has demonstrated his focus on financing and empowering Micro, Small, and Medium Enterprises (MSMEs). He explained that the goal of the holding company is to encourage the growth of small entrepreneurs and ensure that all business elements, including micro enterprises, deserve to receive loan funds (Fai'q, 2021).

The implementation of the formation of the Ultra Micro Holding was carried out by increasing state capital injection in BRI through the transfer of all Series B shares owned by the Government in Pegadaian and Reduction of State Capital (*Pengurangan Modal Negara/PNM*). The addition of state capital for all Series B shares owned by the Government in Pegadaian and PNM resulted in an increase in paid-up capital in BRI. This increase in shares caused the proportion of the Government's share ownership in BRI to rise. Therefore, to maintain the proportion of share ownership by the Government and other shareholders in BRI, BRI conducted a capital increase with Preemptive Rights (rights issue). This rights issue affected the increase in the ownership of shares circulating in the public, thus it can be classified as a privatization action (Untsa, 2022). The realization of the state-owned holding company plan in the Ultra Micro sector in Indonesia has the potential to provide solutions to various capital-related issues for Micro, Small, and Medium Enterprises (MSMEs) (Fai'q, 2021).

1. Risk Independence and Subsidiary Focus

Although the formation of a holding company does not change the legal status of each company, each company, including Pegadaian and PT PNM, still maintains risk independence. This means that in terms of obligations,

risks, and third-party claims, they cannot be imposed on the parent company or other companies. This ensures that Pegadaian and PT PNM remain focused on their activities, such as providing financing credit to lower-tier entrepreneurs.

2. Capital Injection and Subsidiary Capital Increase

The presence of BRI as the parent company can provide larger capital injections for Pegadaian and PT PNM. This enables them to offer financing credit to entrepreneurs at lower interest rates because the capital structure of the subsidiaries becomes stronger. The increase in subsidiary capital also benefits BRI through increased profit from share dividends in the subsidiaries and a narrower scope of financing credit for entrepreneurs.

3. Easier and More Effective Control

The existence of a parent company as the majority shareholder in the subsidiaries allows for easier and more effective control. This includes supervisory rights, operational efficiency, ease of access to capital sources, and decision-making accuracy. Based on this, the holding company allows for more efficient control of the subsidiaries, facilitating operational management and decision-making. BRI as the parent company can coordinate policy strategies with its subsidiaries, including determining interest rates that are proportional to the needs and capabilities of entrepreneurs objectively.

The implementation of the integration of the three SOEs in the field is expected to improve the operational efficiency of the companies. A simple strategy is to reduce risk and operational costs through collaboration and digitalization, such as utilizing co-location and optimizing BRILink agents. In implementing co-location, these three SOEs can optimize outlets spread across the entire archipelago. The use of these outlets by each SOE is expected to enable cross-selling of products, achieving efficiencies that can reduce the cost of funds and interest rates on loans to debtors. Additionally, with the holding of the three SOEs, a new ecosystem is formed that connects various business levels, from ultra-micro, small, medium, to large-scale businesses. This will eventually create an upgraded phase where MSME customers who have grown their businesses will be ready to scale up. Moreover, with the presence of this holding, PNM and Pegadaian can focus more on empowering ultra-micro businesses by seeking new customers or debtors, while funding will become the focus of BRI. This can provide a solution to the challenges PNM and Pegadaian have faced, especially the challenge of high funding costs (Krisnawan, 2022). This means that the integration of financing can promote sustainable and profitable business and is expected to realize cheaper and more effective microcredit financing in the community.

Success in the provision of microbusiness loans is reflected in the significant achievements one year after the official formation of the Ultra Micro Holding in 2021. By December 2022, during this period, the Ultra Micro Holding had successfully integrated more than 34 million customers (Ummah, 2023). The increase in the amount of credit provided will have a positive impact on BRI's profit growth. As stated by Makaombohe et al. (2014), credit is one of the main activities for banks that has a significant impact on bank profits through interest income. This means that the more people take out loans from a bank, the higher the bank's profits will be. This is because the bank will earn income from the interest charged on the credit issued to the public. Additionally, the bank will also earn income from administrative fees or credit service charges imposed on the public.

This statement is evidenced by People's Bank of Indonesia (*Bank Rakyat Indonesia / BRI*) profit report last year, presented by BRI President Director, Sunarso. He explained that there was positive growth in all BRI loan segments, including a 10.9%

year-on-year (yoy) growth in the micro segment, reaching Rp 611,2 trillion, with BRI total MSME loan portfolio accounting for 84.4% of BRI total credit disbursement, equivalent to Rp 1.068,7 trillion. BRI's success in increasing its MSME loan portfolio cannot be separated from the acceleration of new growth sources through the integration of the ultra-micro ecosystem. BRI Group's success in integrating customers in the ultra-micro segment has also resulted in a reduction in the number of customers who have not yet gained access to formal financial services. One example is the empowerment of women entrepreneurs in the ultra-micro segment by PNM, which successfully disbursed Rp 41.6 trillion to 15 million women entrepreneurs through PNM Mekaar (Purwanti, 2024).

Success in managing the ultra-micro holding is not only reflected in the financial performance of 2023 but can also be seen from the comparison of financial reports over several years before and after the formation of the ultra-micro holding.

Table 1. BRI Financial Report for the Past 5 Years

	2019	2020	2021	2022	2023
BOPO	70.10%	81.22%	74.30%	64.20%	64.35%
CAR	22.55%	20.61%	25.28%	23.30%	25.23%
ROA	3.50%	1.98%	2.72%	3.76%	3.93%
NIM	6.98%	6.00%	6.89%	6.80%	6.84%
BRI Profit (inMillions)	34.028.685	18.353.303	32.215.462	47.827.920	53.153.258

From the analysis of the Table 1, it is evident that there is an increase or positive impact associated with the presence of the ultra-micro holding at Bank BRI. This increase can be seen from the comparison of financial performance before and after the formation of the holding, especially in the years 2019-2021 before the formation, and 2022-2023 after the formation. After the formation of the ultra-micro holding, it is evident that the positive trend continued and even improved in 2022-2023. Although there were fluctuations in some indicators, such as a slight increase in the BOPO and a slight decrease in the CAR in 2023. Overall, there was a significant increase in net profit (BRI Profit). BRI's profit increased from 47,827,920 million in 2022 to 53,153,258 million in 2023. This shows that the presence of the ultra-micro holding has contributed positively to the financial performance and business sustainability of Bank BRI, particularly in terms of increasing profitability. This indicates that the strategy of forming the ultra-micro holding has brought significant benefits to Bank BRI.

Based on BRI's profit report showing positive growth in BRI's financial performance, it can be concluded that the presence of the ultra-micro holding, which is the merger of BRI with Pegadaian and PNM, has had a significant impact on the increase in BRI's profit. The success of the Ultra Micro Holding in integrating a large number of customers is believed to contribute positively to the increase in profit and business sustainability of BRI, especially through increased interest income from loans provided to customers. Through the integration of the ultra-micro ecosystem, BRI can significantly increase its MSME credit portfolio, which in turn will enhance interest income and net profit for Bank BRI.

4. Conclusion

The research results show that the formation of the ultra-micro holding involving BRI, Pegadaian, and Reduction of State Capital (*Pengurangan Modal Negara/PNM*) helps to increase BRI's overall profit. The integration of the ultra-micro ecosystem allows BRI to integrate a large number of customers, which ultimately contributes positively to interest income from loans provided to customers. Additionally, the

success of the Ultra Micro Holding in significantly increasing the MSME credit portfolio also contributes to the increase in interest income and net profit. Therefore, the presence of the ultra-micro holding has a tangible impact on increasing BRI's profit, demonstrating the success of the integration strategy in supporting BRI's growth and business sustainability in the MSME sector.

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