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Evaluation of the Implementation of the 5c Principles in Msme Credit Distribution: A Comparative Analysis Based on OJK and Bi Sectoral Data in the Makassar Region

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Abstract. *This research is motivated by the phenomenon of increasing non-performing loan (NPL) risk in the Micro, Small, and Medium Enterprises (MSME) sector in Indonesia, including in the Makassar region, which indicates weakness in the credit analysis process. The 5C principles (Character, Capacity, Capital, Collateral, Condition) are the main foundation in analyzing debtor eligibility, however their implementation in the field still faces various challenges. The objectives of this research are: (1) To analyze the application of the 5C principles in MSME credit distribution in the Makassar region based on sectoral data from the Financial Services Authority (OJK) and Bank Indonesia (BI); (2) To conduct a comparative analysis across economic sectors to identify the sectors most vulnerable to non-performing loans; and (3) To evaluate the dominant factors from the 5C aspects contributing to NPL in each sector. Data analysis was conducted using content analysis and constant comparative analysis techniques, by comparing NPL data and characteristics across economic sectors (agriculture, trade, manufacturing industry, services) and then interpreting them using the 5C principles framework. The results of the study indicate that: (1) There are variations in NPL rates across economic sectors in the Makassar region, with the trade and agricultural sectors tending to have higher NPLs compared to the services and manufacturing sectors; (2) The Condition and Capacity factors are the dominant causes of non-performing loans across all sectors, reflected in macroeconomic data such as fluctuations in public purchasing power (trade sector), climate change and import policies (agricultural sector), as well as business competition and digitalization (services sector); (3) The Character and Collateral aspects function more as initial mitigating factors but are not strong enough to prevent default if external conditions deteriorate significantly; (4) The thin capital aspect is a structural weakness of MSMEs in all sectors, so when shocks occur, there is no reserve fund (buffer) to survive.*

Keywords: *Analysis; Credit; Principles; Sectoral.*

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a highly strategic role in the Indonesian economic structure. According to data from the Ministry of Cooperatives and SMEs, the MSME sector employs more than 97% of the national workforce and contributes more than 60% to Gross Domestic Product (GDP). This significant contribution positions MSMEs as the backbone of the economy, serving not only as job providers but also as a driving force for economic growth at the grassroots level. Furthermore, MSMEs also act as a buffer against national economic shocks, as evidenced by the 1998 economic crisis and the COVID-19 pandemic, where this sector demonstrated extraordinary resilience (Sa'diya, 2024).

At the regional level, particularly in South Sulawesi Province and Makassar City, MSMEs play an equally important role. Makassar, as the provincial capital and center of economic growth in Eastern Indonesia (KTI), is a magnet for trade, services, and small-scale industries. Bank Indonesia recorded that South Sulawesi's economy grew by 5.1 percent in the third quarter of 2025, surpassing the national economic growth of 5.01 percent. This growth was supported by five main sectors: agriculture, trade, manufacturing, construction, and mining (BI.go.id., 2025).

Banking, as a financial intermediary institution, plays a vital role in supporting the development of MSMEs through credit distribution. Bank Rakyat Indonesia (BRI), a bank focused on the micro, small, and medium-sized enterprises (MSMEs), has a significant responsibility in financing MSMEs. The government, through various policies, including the National Economic Program (PEN) and the People's Business Credit (KUR), continues to encourage banks to increase their financing to the MSME sector. KUR realization in 2025 reached IDR 250.8 trillion with maintained financing quality, and the government has set a ceiling for agricultural KUR of IDR 300 trillion in 2026 to strengthen national food security.

Despite its strategic role, lending to the MSME sector is not without risks, particularly credit risk, or the risk of debtors failing to meet their obligations. This risk manifests itself in the form of non-performing loans (NPLs). Data from the Financial Services Authority (OJK) shows that while the aggregate NPL ratio of the national banking industry remains relatively manageable (2.25% as of November 2025), in certain segments, particularly MSME lending, credit quality is under significant pressure (OJK.go.id., 2025).

A worrying phenomenon is the increasing trend of MSME NPLs in recent months. Bank Indonesia noted that MSME NPLs reached 4.6% in January 2026, up from 4.33% in December 2025. This increase occurred in a relatively short period and serves as an early warning signal for the banking industry. Even more worrying, 50 banks have double-digit Loan at Risk (LAR), with 17 of them recording LARs above 20 percent. A high LAR indicates a significant potential for future non-performing loans.

Previous research by Halima as Sa'diya (2024) at PT Pegadaian revealed a high level of non-performing loans among its MSME partners, indicating weaknesses in the credit analysis process. This is in line with research by Farhan Putra Assyah (2025), who found that despite the implementation of prudent principles, obstacles such as late installment payments by debtors due to declining business turnover, crop failures, and low managerial capabilities were still encountered. Assyah, 2025).

The phenomenon of non-performing loans in the MSME sector cannot be separated from macroeconomic dynamics, both at the national and regional levels. Bank Indonesia noted that although regional economic growth remains strong, challenges such as weakening purchasing power, global economic pressures, and geopolitical uncertainty also impact the repayment capacity of MSME debtors (BI.go.id., 2025).

Bank Mandiri Chief Economist Andry Asmoro assessed that the recovery in household consumption at the end of 2025 reflects more the seasonal effects of Christmas and New Year, rather than structural changes in household economic strength. Entering 2026, inflationary pressures are expected to remain under control thanks to relatively good food supply conditions. However, the real challenge is ensuring this price stability accompanied by strengthening real incomes (OJK.go.id., 2025).

On the other hand, external pressures are also intensifying. The World Bank, in its Commodity Markets Outlook report, projects commodity prices will fall to their lowest level in 2026, marking the fourth consecutive year of decline. The rupiah has depreciated to nearly Rp17,000 per US dollar due to pressure on global financial markets, geopolitical escalation, and uncertainty over the Fed's monetary policy. The weakening rupiah has impacted the cost of importing raw materials and capital goods, which in turn has squeezed MSMEs' business margins.

In banking practice, the 5C principle (Character, Capacity, Capital, Collateral, and Condition) has long been the primary foundation of creditworthiness analysis. This principle is used to evaluate prospective borrowers holistically, both qualitatively (character, condition) and quantitatively (capacity, capital, and collateral). The Deputy Commissioner of the Financial Services Authority (OJK) emphasized that in disbursing credit, banks are required to have a credit policy and conduct a 5C assessment to obtain confidence in the borrower's ability and willingness to repay their obligations.

Ita Rukmanasari's (2025) research on Islamic pawnshops in Jeneponto confirmed that mitigating bad debts applies the 5C principle, namely understanding the character of the prospective debtor (Character), understanding the payment ability of the prospective debtor (Capacity), understanding the financial condition of the prospective debtor (Capital), the nominal amount of the prospective debtor's business (Collateral), and understanding the condition or prospects of the business sector to be financed (Condition).

However, research by Halima As Sa'diya (2024) shows that the analysis of the 5C principles among MSME partners has not been optimally implemented. This indicates a gap between theory and practice, as well as potential weaknesses in its implementation in the field.

The government and regulators continue to strive to strengthen MSME credit governance through various policies. One of the most fundamental recent regulations is Financial Services Authority Regulation (POJK) Number 19 of 2025 concerning Ease of Access to Financing for Micro, Small, and Medium Enterprises. This regulation radically shifts the financing paradigm from collateral-based to capacity-based.

POJK 19/2025 regulates several important matters: (1) the obligation of banks and LKNB to develop policies and products specifically for MSMEs; (2) acceptance of collateral in the form of intellectual property; (3) acceleration of business processes through the use of information technology; (4) use of Alternative Credit Ratings (PKA); and (5) confirmation of write-off and write-off mechanisms. OJK affirms its commitment to ensuring that this POJK is implemented optimally, so that banks can provide easy access to financing to MSMEs with the principles of easy, precise, fast, cheap, and inclusive.

However, implementation on the ground faces various challenges. Financial Services Authority (OJK) data shows that MSME credit growth was only 0.23% as of September 2025, far below corporate credit growth of 11.53%. This indicates that banks are becoming increasingly selective in channeling credit to the MSME sector, likely due to perceived high risks or inadequate borrower capacity.

The author, as a Masters student at UNISSULA's MM program and an active employee at the BRI Makassar Regional Office with experience in operations and retail and microcredit, has both a practical and academic interest in evaluating the implementation of the 5C principles in his own area. Makassar, as a center of economic growth in Eastern Indonesia, has unique MSME characteristics, dominated by the trade, agriculture, and services sectors.

This research uses secondary data published by the Financial Services Authority (OJK) and Bank Indonesia (BI) as its primary source. This approach not only overcomes administrative barriers (limited access to primary data) but also provides a more macro-level and comparative perspective across economic sectors. The use of secondary data from official institutions also ensures the objectivity and ethical compliance of the research.

Several previous studies have examined the application of the 5C principle in credit analysis, such as Halima As Sa'diya's (2024) study at PT Pegadaian, Farhan Putra Assyah's (2025) study at PT Bank Nagari, and Ita Rukmanasari's (2025) study at Islamic pawnshops in Jeneponto. However, these studies generally used primary data from a single institution or focused on a specific region.

The research gaps filled by this study are: (1) the use of secondary sectoral data from the OJK and BI which provide macro and comparative perspectives; (2) a focus on the Makassar region with its unique economic characteristics as a growth center in the Eastern Indonesia; (3) comparative analysis between sectors (agriculture, trade, industry, construction) to identify the most vulnerable sectors and the dominant factors causing bad debt; and (4) the time context after the issuance of POJK 19/2025 which brings a new paradigm for MSME financing.

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2. Research Methods

This research uses a qualitative approach. This approach was chosen because the study aims to understand the phenomenon of bad debt in the MSME sector in depth and contextually, rather than statistically examining the relationship between variables. As stated by Kriyantono (2024), qualitative research aims to explain phenomena as deeply as possible through in-depth data collection, with a greater emphasis on the meaning, definition, concept, and description of a phenomenon (Kriyantono, 2024). Creswell (2015) in his book Qualitative Research and Research Design explains that qualitative research is a method for exploring and understanding the meaning that individuals or groups ascribe to social or humanitarian issues. The qualitative research process involves important efforts, such as asking questions and procedures, collecting specific data from participants, analyzing the data inductively from specific themes to general themes, and interpreting the meaning of the data. This type of research is a literature study (*library research* Literature study research is an approach that examines and uses literature as a reference and reference material in managing data. In this study, researchers do not collect field data directly, but rather rely on data published by official institutions such as the Financial Services Authority (OJK) and Bank Indonesia (BI), as well as relevant academic literature.

3. Results and Discussion

3.1. Overview of the Makassar Region and MSME Profile

1) Geographical and Demographic Conditions of Makassar City

Makassar City, as the capital of South Sulawesi Province, is a center of economic growth in Eastern Indonesia (KTI). Geographically, Makassar is located at coordinates 119°24'17"38" East Longitude and 5°8'6"19" South Latitude, with an area of approximately 175.77 km². The city is bordered by the Makassar Strait to the west, Maros Regency to the north, Gowa Regency to the east, and Takalar Regency to the south.

With a population of over 1.5 million, Makassar is a magnet for trade, services, and small-scale industry. Its dense population and high mobility make the city a dynamic hub for economic transactions, with the trade and services sectors serving as the backbone of the regional economy.

2) Economic Growth in South Sulawesi and Makassar

Bank Indonesia noted that South Sulawesi's economy continues to show positive growth following the COVID-19 pandemic. In the third quarter of 2025, South Sulawesi's economic growth was recorded at 5.1 percent, surpassing the national economic growth of 5.01 percent.

Wahyu Purnama, Deputy Head of the Bank Indonesia Representative Office for South Sulawesi Province, revealed that five main sectors are driving South Sulawesi's economic

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growth: agriculture, trade, manufacturing, construction, and mining. These five sectors contribute significantly to South Sulawesi's Gross Regional Domestic Product (GRDP) and serve as the foundation for the development of MSMEs in the region.

Table Economic Growth of South Sulawesi and Nationally (2024-2025)

Period	Economic Growth of South Sulawesi (%)	National Economic Growth (%)
Q3-2024	5.08%	4.95%
Quarter IV-2024	5.11%	5.02%
First Quarter 2025	5.07%	5.00%
Second Quarter 2025	5.09%	5.03%
Quarter III-2025	5.10%	5.01%

Source: Bank Indonesia, compiled from various sources

Considering the potential contributors to South Sulawesi's economic growth, Bank Indonesia is optimistic that South Sulawesi's economic growth in 2026 will be much better than the achievement in 2025. This optimism is based on the prospect of downstreaming leading sectors, especially agriculture, as well as improvements in the investment climate in the region.

3) Development of MSMEs in Makassar City

MSMEs in Makassar City are showing dynamic growth in line with regional economic growth. Data from the Makassar City Cooperatives and SMEs Office shows an annual increase in the number of MSMEs, with trade, services, and manufacturing being the dominant sectors.

Table Development of the Number of MSMEs in Makassar City (2022-2025)

Year	Number of MSMEs	Growth (%)	Dominant Sector
2022	48,500	-	Trade, Services
2023	52,100	7.4%	Trade, Services, Industry
2024	56,000	7.5%	Trade, Services, Industry, Agriculture
2025	60,300	7.7%	Trade, Services, Industry, Agriculture

Source: Makassar City Cooperatives and SMEs Service, processed (2026)

This increase in the number of MSMEs aligns with a national trend where the informal sector continues to grow as a consequence of limited formal employment opportunities. The Central Statistics Agency (BPS) recorded a steady increase in the number of informal workers nationwide, from 78.14 million in 2021 to 86.58 million in 2025, equivalent to 59.40 percent of the total employed population. This phenomenon also occurs in Makassar, where informal sectors such as street vendors, home businesses, and personal services are the primary means of livelihood for people.

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4) Inflation Conditions and Public Purchasing Power

Bank Indonesia noted that inflation in South Sulawesi in October 2025 was recorded at 2.9 percent year-on-year (yoy) and 4.2 percent current inflation. This figure remains within the national inflation target range of 2.5±1 percent, indicating that price pressures remain generally under control.

However, the latest data as of January 2026 shows that South Sulawesi's inflation rate was recorded at 0.47 percent month-to-month (mtm), with annual inflation reaching 4.11 percent year-on-year (yoy), higher than the national inflation rate of 3.55 percent year-on-year (yoy). Commodities such as fresh fish and gold jewelry were the main contributors to inflation, while various types of chilies and shallots managed to hold back the rate of increase thanks to maintained supplies.

The Head of the BI South Sulawesi Representative Office, Rizki Ernadi Wimanda, stated that Bank Indonesia continues to monitor potential inflationary pressures, particularly from the food sector. To prepare for Ramadan and Eid al-Fitr 2026, BI has prepared Rp4.5 trillion in currency fit for circulation, a 5 percent increase compared to the previous year, to ensure that people's cash needs are met.

Table Inflation Development in South Sulawesi (2025-2026)

Period	Monthly Inflation (mtm)	Annual Inflation (yoy)
October 2025	-	2.9%
December 2025	-	3.8% (estimate)
January 2026	0.47%	4.11%

Source: Bank Indonesia, compiled from various sources

5) Development of Bank Credit in South Sulawesi

Nationally, the Financial Services Authority (OJK) recorded relatively stable banking intermediation performance through October 2025. Bank credit grew 7.36% year-on-year (yoy) to Rp8,220.21 trillion, with asset quality remaining manageable, as reflected in a gross NPL ratio of 2.25% and a net NPL ratio of 0.90%. Loan at Risk (LaR) was also relatively stable at 9.41%.

Regionally, credit distribution in South Sulawesi follows a similar pattern, with the trade, agriculture, and manufacturing sectors being the largest recipients. However, the main challenge faced is increasing credit risk in the MSME segment, particularly in light of weakening purchasing power and global economic pressures.

Bank Mandiri Chief Economist Andry Asmoro believes that the recovery in household consumption by the end of 2025 reflects more the seasonal effects of Christmas and New Year, rather than structural changes in household economic strength. Entering 2026, inflationary pressures are expected to remain under control thanks to relatively good food supply conditions. However, the real challenge is ensuring this price stability is accompanied by strengthening real incomes.

3.2. Analysis of the Implementation of the 5C Principles Based on Sectoral Data from OJK and BI

1) Character Aspect: OJK SLIK Data and Debtor Credit History

Aspect *character* in credit analysis refers to the personal and business reputation of the prospective debtor, which reflects the willingness (*willingness to pay*) debtors in fulfilling their obligations. In the Indonesian banking system, this data can be accessed through the Financial Services Authority (OJK)'s Financial Information Services System (SLIK), which displays debtors' credit track records across all financial institutions.

The Deputy Commissioner for Legal Affairs and Investigations at the Financial Services Authority (OJK), Yuliana, emphasized that when disbursing credit, banks are required to have a credit policy and conduct a 5C assessment to ascertain a debtor's ability and willingness to repay their obligations. Character assessment is a key foundation because it relates to the debtor's integrity and good faith.

Table Development of NPL and LAR of National Banking (2025)

Indicator	September 2025	October 2025	November 2025
Gross NPL	2.24%	2.25%	2.25%
Loan at Risk (LAR)	9.52%	9.41%	-

Source: OJK, processed from various sources

The data above shows a consistent upward trend in NPLs, from 2.08% in December 2024 to 2.25% in November 2025. Although this figure remains below the 5% safety threshold, the increase warrants caution as a sign of deteriorating credit quality, including in the MSME segment.

Even more worrying, 50 banks have double-digit Loan at Risk (LAR), with 17 of them recording LAR above 20 percent. A high LAR indicates a significant potential for future non-performing loans, which could impact the bank's overall health.

In the East Priangan region, the Tasikmalaya Financial Services Authority (OJK) noted that despite 4.30 percent growth in MSME lending, the sector's non-performing loan (NPL) rate was relatively high, reaching 7.26 percent. This indicates that MSME credit quality challenges are not unique to South Sulawesi but also occur in other regions with similar characteristics.

The Info bank Research Bureau identified that amidst the economic downturn, the risk of default increases. In fact, some individuals and companies are trying to survive by profiting at the expense of others. Bad credit trap can be deliberately created by bad debtors who do not fulfill payment obligations, use credit to pay debts, or use credit not according to its intended use (*side streaming*).

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2) Capacity Aspect: Business Capacity and Community Purchasing Power

Aspect *capacity* measures the debtor's ability to generate sufficient income to cover installments. At the sectoral level, capacity can be analyzed through data on real sector growth, public purchasing power, and other macroeconomic indicators.

Table Comparative Matrix of Characteristics and Risks Between Sectors

Aspect	Agriculture	Trading	Industry	Construction
Contribution to South Sulawesi's GRDP	35.47%	Significant	Significant	Significant
Cash Flow Characteristics	Seasonal	Daily/Weekly	Periodic	Per Project
Purchasing Power Sensitivity	Currently	Tall	Currently	Low
Weather/Climate Sensitivity	Tall	Low	Low	Currently
Policy Sensitivity	High (subsidy, price)	Medium (regulation)	High (tariffs, downstreaming)	High (budget)
Collateral Requirements	Problematic (land)	Enough	Enough	Enough
Capital Requirements	Thin	Thin	Medium-Large	Big
Credit Risk (Estimate)	Currently	Tall	Currently	Very high

Source: Author's analysis based on various sources

Based on MSME NPL data reaching 4.6% in January 2026 and the increasing trend of credit risk across various sectors, it can be identified that:

1.Trade Sector is the most vulnerable sector due to its high sensitivity to people's purchasing power which has not yet recovered structurally.

2. Construction Sector also has high vulnerability given its dependence on government projects and the risk of late payments.

3. Agricultural Sector relatively more resilient due to its large contribution and government support through agricultural KUR with a ceiling of IDR 300 trillion in 2026.

Discussion:

1) Dominant Factors Causing Bad Debt Based on the 5C Analysis

Based on the latest data analysis, the dominant factors causing bad debt in the MSME sector can be identified:

a. Condition as the Main Trigger

External conditions are the dominant factor driving the deterioration in credit quality. Several indicators support this finding:

a. Weakening of people's purchasing power which has not yet recovered structurally, even though there has been an improvement in seasonal consumption.

b. Global economic pressures, including geopolitical escalation, falling commodity prices, and monetary policy uncertainty.

c. Fiscal risks with swelling government debt payments reaching IDR 1,433 trillion in 2026, have the potential to disrupt banking liquidity.

d. The depreciation of the rupiah, which is approaching Rp. 17,000 per US dollar, is reducing the cost of importing raw materials.

b. Capacity as an Intervening Variable

Worsening external conditions directly impact the debtor's business capacity, as reflected in:

a. Increase in MSME NPL from 4.33% (December 2025) to 4.6% (January 2026).

b. Contraction of MSME credit amidst a slight increase in interest rates to 10.57%.

c. The number of informal workers has increased to 86.58 million or 59.40% of the total number of workers, who generally have limited business capacity.

c. Capital as a Fragile Buffer

The thin capital structure of MSMEs leaves them with no reserve funds in the event of a shock. This situation is exacerbated by:

a. Dominance of the informal sector which generally does not have sufficient capital of its own.

b. High dependence on loans for working capital.

c. There is no separation between business and family finances.

d. Character as a Mitigating Factor

The data shows that although there are indications of delinquent debtors who commit *side streaming* in general, a debtor's good character can help mitigate risk. However, good character is not enough to protect a debtor from a prolonged external crisis.

e. Collateral as a Second Way Out that is Ineffective in Preventing Traffic Jams

The KUR program, with its easy collateral, has facilitated access to financing for MSMEs, as evidenced by the realization of KUR loans in 2025 reaching Rp250.8 trillion with maintained quality (NPLs below 2-3% across various banks). However, collateral does not prevent bad debts; it remains a long and costly last resort.

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2) Implications of Findings for Banking Practices in Makassar

The findings of this study have several important implications for banking practices, particularly BRI in the Makassar region:

a. Strengthening the Early Warning System (EWS)

Banks need to develop early warning systems that are capable of detecting early signs of declining debtor capacity, by monitoring:

a. Macroeconomic indicators such as people's purchasing power, inflation, and exchange rates.

b. Internal data such as transaction frequency, credit withdrawal patterns, and late payments.

c. Sectoral information such as commodity prices, government policies, and market conditions.

b. Sector-Based Approach

Analysis, pricing, and monitoring strategies need to be differentiated between sectors according to their risk characteristics:

a. Agriculture Sector: Understanding the planting-harvest cycle, weather factors, and commodity prices; utilizing the agricultural KUR program with a ceiling of IDR 300 trillion.

b. Trade Sector: Close monitoring of turnover and purchasing power; encouraging business digitalization.

c. Construction Sector: Careful project cash flow analysis; avoid overexposure to small, highly leveraged contractors.

c. Strengthening Governance and Legal Protection

In facing the threat of criminalization of bad debts, banks need to:

a. Ensure that the credit granting process complies with SOP and is free from fraud and conflicts of interest.

b. Document the entire analysis and decision-making process well.

c. Understand and apply principles *business judgment rule* as legal protection for business decision makers who act in good faith.

d. Optimizing the Implementation of POJK 19/2025

Banks need to optimize the implementation of POJK Number 19 of 2025 by:

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a. Implement special policies and financing schemes according to the characteristics of MSMEs.

b. Accelerate business processes by utilizing information technology.

c. Determine reasonable financing costs.

d. Provide direct assistance to MSMEs to improve the quality of financing.

e. Collaboration with Stakeholders

Banks need to build synergies with various parties, including OJK, BI, local governments, and business associations, to:

a. Get the latest data and information on economic and sectoral conditions.

b. Formulate a financing program that is right on target.

c. Conduct joint monitoring of problematic debtors.

d. Developing a sustainable MSME ecosystem.

4. Conclusion

Based on the results of the analysis and discussion conducted in Chapter IV using secondary data published by the Financial Services Authority (OJK), Bank Indonesia (BI), and various other reliable sources, this study concludes the following: Overview of MSME Credit Distribution and NPL Development in the Makassar Region The economic development of South Sulawesi and Makassar City showed a positive trend, with economic growth reaching 5.1 percent in the third quarter of 2025, surpassing the national average. The agricultural sector remains the main contributor to GRDP, contributing 35.47 percent, followed by trade, manufacturing, construction, and mining. However, on the other hand, the quality of MSME credit is showing a deteriorating trend. Bank Indonesia data as of January 2026 recorded the MSME NPL ratio reaching 4.6 percent, up from 4.33 percent in December 2025. This increased risk has driven MSME loan interest rates up slightly to 10.57 percent, while MSME loan growth has slowed and even contracted. Implementation of the 5C Principles Based on Sectoral Data from the Financial Services Authority (OJK) and Bank Indonesia (BI).

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