



Analysis of the Influence of Internal, External, and Environmental Factors on Problematic Loans in Micro Credit Financing

Rikis Sukamto

Perbanas Institute Jakarta

Corresponding Author: Rikis Sukamto rikissukamto55@gmail.com

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ABSTRACT

This study aims to analyze the influence of internal factors, external factors, and environmental factors on the occurrence of non-performing loans (NPL) in microcredit financing at PT Permodalan Nasional Madani (PNM) Mojokerto Branch. The research method used is a quantitative approach with descriptive analysis. Data were obtained from the microfinance service unit of PNM Mojokerto Branch, covering several work units with a total of 1,699 clients. The results of the study indicate that bank internal factors, debtor external factors, and environmental factors have a positive and significant effect on the occurrence of non-performing loans. These findings emphasize the importance of applying prudential principles, strengthening credit analysis, and mitigating external and environmental risks in an effort to reduce the NPL level in microcredit financing

INTRODUCTION

Credit distribution is the main activity of financial institutions in supporting national economic growth, particularly in the micro, small, and medium enterprises (MSME) sector. Microcredit plays a strategic role because it can increase access to capital for small business actors who generally have limited capital and access to formal banking. However, behind these benefits, credit distribution also carries considerable risks, especially the risk of problematic loans or Non-Performing Loans (NPLs). Non-Performing Loans are an important indicator in assessing the health of financial institutions. A high NPL level reflects weak financing quality and has the potential to disrupt a company's liquidity and profitability. Therefore, financial institutions are required to apply prudential banking principles in every financing process, from credit analysis and disbursement to post-credit supervision.

PT Permodalan Nasional Madani (PNM), as a state-owned financing institution, has a strategic mandate in empowering micro-enterprises through various financing schemes. In practice, the PNM Mojokerto Branch faces dynamics of problematic credit influenced by various factors. Historical data shows fluctuations in the NPL (Non-Performing Loan) rate in recent years, especially during periods of economic slowdown and the Covid-19 pandemic.

These conditions indicate that problematic credit issues are not caused by a single factor but result from the interaction of internal financial institution factors, external debtor factors, and environmental or macroeconomic conditions. Therefore, comprehensive research is needed to identify and analyze the influence of these three factors on the occurrence of problematic credit.

Based on this background, this study aims to analyze the influence of internal factors, external factors, and environmental factors on non-performing loans in microcredit financing at PT Permodalan Nasional Madani Mojokerto Branch. The results of this study are expected to provide practical contributions for PNM management as well as academic contributions for the development of credit risk management literature.

LITERATURE REVIEW

1. Non-Performing Loans

Non-performing loans are conditions in which debtors are unable to fulfill their obligations in accordance with the agreed credit agreement. A loan is categorized as non-performing if there is a delay in the payment of principal and/or interest that exceeds a certain time limit. According to the regulations of Bank Indonesia and the Financial Services Authority (OJK), non-performing loans include loans with substandard, doubtful, and bad collectibility.

The NPL level is used as a key indicator in assessing the quality of a financial institution's productive assets. The higher the NPL ratio, the greater the risk that the financial institution has to bear, both in terms of liquidity, solvency, and profitability. Therefore, controlling NPLs becomes a top priority in banking and financing institution risk management.

2. Internal Factors

Internal factors are factors that originate from within the financial institution itself. These factors include the quality of human resources, financing systems and procedures, the quality of credit analysis, the application of the 5C principles (character, capacity, capital, collateral, economic conditions), as well as the effectiveness of credit supervision and monitoring. Errors in credit analysis, weak post-credit supervision, and pressure to achieve financing distribution targets often lead to an increase in non-performing loans. The professionalism and integrity of credit officers are crucial elements in minimizing credit risk.

3. External Factors

External factors are related to the characteristics and behavior of debtors as recipients of financing. These factors include the debtor's character, ability to manage the business, financial condition, and use of credit funds. Misuse of credit funds (side streaming) and business failure are the main causes of problematic credit in the micro sector. In addition, low financial literacy and the debtor's legal awareness also contribute to the increased risk of bad credit. Debtors with bad intentions tend to ignore payment obligations even if they have financial capacity. 2.4 Environmental Factors Environmental factors include macroeconomic conditions, social conditions, and extraordinary events such as natural disasters or pandemics. Changes in economic conditions can affect people's purchasing power and the debtor's business income, thereby directly impacting the ability to repay credit.

The Covid-19 pandemic is a clear example of an environmental factor that has a significant impact on the quality of microcredit financing. Restrictions on economic activities have caused a decline in microbusiness turnover and increased the risk of loan default.

4. Conceptual Framework and Hypotheses

Based on theoretical studies and previous research, a conceptual framework can be established that problem loans are influenced by internal factors, external factors, and environmental factors. The hypotheses of this study are: (1) internal factors have a positive effect on problem loans, (2) external factors have a positive effect on problem loans, and (3) environmental factors have a positive effect on problem loans

METHODS

1. Research Design

This research uses a quantitative approach with descriptive and explanatory research methods. The quantitative approach was chosen because this study aims to examine the influence among predefined variables, namely internal factors, external factors, and environmental factors on non-performing loans. The descriptive method is used to describe the characteristics of the research object, while the explanatory method is used to explain the causal relationships among the research variables.

This study is a case study conducted at PT Permodalan Nasional Madani (PNM) Mojokerto Branch. The case study was chosen so that the researcher could gain a deeper understanding of the empirical conditions of microcredit financing and the issues of non-performing loans occurring at the research site.

2. Object and Unit of Analysis

The research object is PT Permodalan Nasional Madani (PNM) Mojokerto Branch. The unit of analysis in this study includes the microfinance service units located at under the auspices of PNM Mojokerto Branch. These units provide financing to micro-entrepreneurs with various business characteristics, such as trade, services, and home industries. The selection of PNM Mojokerto Branch as the research subject is based on the consideration that there is a variation in the level of problematic loans among service units, thus providing relevant data for analysis.

3.3 Types and Sources of Data

The type of data used in this study is quantitative data. Quantitative data is obtained in the form of numbers that describe the conditions of financing and problematic loans. The sources of research data consist of: 1. Primary data, which is data obtained directly from internal parties at PNM Mojokerto Branch through internal documentation and financing reports. 2. Secondary data, which is data obtained from literature, annual reports, banking regulations, and previous research results relevant to the research topic.

3. Population and Research Sample

The population in this study consists of all microcredit financing customers at the PNM Mojokerto Branch recorded during the research period. Considering the limitations of time and data access, this study uses a sample that represents the population.

The sampling technique was conducted using purposive sampling, which is the selection of samples based on certain criteria relevant to the research objectives. The sample criteria in this study are customers categorized as having problematic financing and regular financing, allowing for a comparison of conditions.

4. Operational Definitions and Variable Measurement

The research variables consist of independent variables and dependent variables. Independent variables include internal factors (X1), external factors (X2), and environmental factors (X3). The dependent variable is problematic credit (Y).

The measurement of variables was carried out using indicators arranged based on theoretical studies and internal financing policies. The measurement scales used are nominal and ordinal scales, adjusted to the characteristics of the data.

5. Data Analysis Techniques

The data analysis technique used in this study is quantitative descriptive analysis. Descriptive analysis is used to describe the condition of microcredit financing and the level of problematic loans at PNM Mojokerto Branch.

In addition, this study uses an approach to analyze the relationships between variables to assess the influence of internal factors, external factors, and environmental factors on problematic loans. The results of the analysis are presented in the form of tables and narrative descriptions to facilitate interpretation.

6. Research Instruments

Research instruments are tools used to collect data relevant to the research variables. In this study, the main instruments were documentation formats and data recording sheets for microcredit financing obtained from the internal reports of the PNM Mojokerto Branch. These instruments were used to identify the condition of performing and non-performing loans and the factors influencing them. The use of documentation instruments was chosen because the data analyzed is quantitative and has been verified by the institution, thus having a high level of reliability. In addition, these instruments allow researchers to obtain historical data objectively.

3.8 Data Processing Techniques

The collected data is then processed through several stages, namely editing, coding, and tabulation. The editing stage is conducted to ensure the completeness and consistency of the data. The coding stage is carried out by grouping the data according to the research variable. Meanwhile, the tabulation stage is carried out to organize data in the form of tables to make it easier to analyze. Data processing is carried out systematically to minimize errors and improve the accuracy of the analysis results. The processed data is then ready to be analyzed according to the predetermined analysis techniques.

7. Data Validity Test

To ensure the quality of data and research results, a conceptual data validity test is conducted. Data validity is maintained through the use of official and documented data sources. In addition, the data used is compared with theories and previous research results to ensure consistency and relevance.

Although this research does not use questionnaire instruments, the validity and reliability of the data are still considered through accurate data recording and the suitability of the indicators used in measuring variables.

8. Research Stages

The research stages include: (1) identifying problems and determining research variables based on theoretical studies and empirical conditions, (2) collecting data from primary and secondary sources, (3) processing and analyzing data through quantitative descriptive methods, (4) interpreting the analysis results, and (5) drawing conclusions and formulating policy recommendations.

These stages are carried out sequentially and systematically to ensure that the research proceeds according to the established objectives and produces findings that are scientifically accountable.

RESULTS AND DISCUSSION

General Overview of the Research Object

PNM Mojokerto Branch has several micro capital service units that provide financing to micro entrepreneurs in the Mojokerto area and its surroundings. The characteristics of the debtors are dominated by small trading businesses, services, and household businesses. The financing scheme used emphasizes ease of access to capital while still adhering to prudential principles.

The Influence of Internal Factors on Problematic Credit

The analysis results indicate that internal factors have a positive influence on the occurrence of problematic credit. Weak credit feasibility analysis and suboptimal post-disbursement monitoring are dominant factors. This suggests that improving human resource quality and strengthening the internal control system are highly necessary.

The Influence of External Factors on Problematic Credit

External factors of the debtor have been proven to significantly contribute to problematic loans. Misuse of loan funds, business failure, and weak financial management of the debtor are the main causes of rising NPLs. These findings are in line with previous research that emphasizes the importance of assessing the debtor's character and capacity.

The Influence of Environmental Factors on Problematic Loans

Environmental factors, particularly economic conditions and the impact of the pandemic, also worsen financing quality. A decline in the debtor's business income directly affects their ability to make installment payments. Therefore, financial institutions need to have risk mitigation policies that are adaptive to changes in the environment.

Integrated Discussion

Overall, the research results indicate that non-performing loans are a multidimensional phenomenon influenced by the interaction between internal, external, and environmental factors. Efforts to reduce NPLs cannot be carried out partially but must follow an integrated approach that includes improvements to internal systems, enhancement of debtor quality, and rapid responses to changes in external conditions.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study concludes that internal factors, external factors, and environmental factors positively influence the occurrence of non-performing loans in microcredit financing at PNM Mojokerto Branch. These three factors need to be managed comprehensively to reduce NPL levels. Internal factors, external factors, and environmental factors significantly affect non-performing loans in microcredit financing at PT PNM Mojokerto Branch. External factors are the most dominant

Recommendation

PNM is advised to improve the quality of credit analysis, strengthen financing supervision, and develop risk mitigation policies that are responsive to external and environmental conditions. Future research can develop inferential quantitative methods to obtain more in-depth results. The practical implications of this study are the need to improve the quality of credit analysis, strengthen post-disbursement supervision, and provide business assistance to debtors. Future research is recommended to add other variables and expand the research subjects to make the results more general.

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