

Community-based MSMEs (Micro, Small, Medium Enterprises) Financing Model to Increase Business Independence

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Abstract—This research aims to develop MSMEs financing community-based model to increase business independence. The goal to be achieved in this research is a model of MSMEs financing that can be implemented by small and medium entrepreneurs to improve business independence. The method used in this research is Research and Development (R & D). Research and development is a process or steps to develop a new product or refine an existing product. Stages in research and development (R & D) in this research is operationally consists of: 1) Research and data collection; 2) Planning; 3) Model Development; 4) Model Validation; 5) Model Revisions; 6) Model Trial; 7) Model Revisions; 8) Wider Test; and 9) Final Model Revisions. Based on the existing condition and the frame of reference for model development, the design of the MSMEs financing model is a model of community-based financing in the form of a model that allows entrepreneurs to have higher business independence by forming a group of capital among entrepreneurs themselves with procedures and regulations that are created and adhered together, so capital is no longer an obstacle to developing a business.

Keywords—financing; business independence; MSMEs

I. INTRODUCTION

The existence of Micro Small Medium Enterprises (MSMEs), has an important role in improving the economy of a country. Micro, Small and medium enterprises (MSMEs) are a key driver for economic growth and access to finance is a key constraint to development of micro, small and medium enterprises (MSMEs) in emerging economies [1,2]. Micro, small and medium enterprises (MSMEs) play a significant role in job creation, poverty reduction and reducing inequality in both developed and developing economies [3]. The facts proved that in the national crisis that had hit Indonesia (July 1997), MSMEs made a very important contribution in increasing the national economy. Proven after the crisis, the business sector that absorbs a lot of manpower one of them is MSMEs. However, financing support (working capital and investment as well as funding required for other business development) to MSMEs tends to decline.

As a previous study Yunus showed that MSMEs had very complex problems, including policies, business development and services, business financing, infrastructure, coordination of

regional MSME programs and cooperation at the national level [4]. The lack of knowledge about the importance of financing affects the management's mindset. As a result, the majority of MSMEs manage their businesses using traditional methods, which are not supported by good management. As well as the results of research conducted by Yuniar, the problem that often occurs in the MSMEs sector are relatively complex, ranging from human resources issues, access to capital, business culture and management capability as well as fund management business that is mixed with household finances [5]. Another major problem for MSMEs is their less capacity of collective bargaining in the credit market [6].

The number of credit provider institutions that are present in the midst of the community has no significant effect on MSMEs. The requirements proposed by the credit provider institutions are still felt to burden MSMEs. These formal loans provide a minimum limit for loan lending [7].

The above problems caused MSMEs not to use credit provided by credit or banking institutions. To cover the funding needs MSMEs preferred to use illegal credit from informal credit providers. This has a very serious impact on the existence of MSMEs, given that the interest costs arising from these loans are very high.

Actually MSMEs get special attention from the government, which is the government has set policy directions in empowering cooperatives and MSMEs. Given that cooperatives and MSMEs are strategic sectors in enhancing national economic growth. *Jumhur*, a new breakthrough is needed in the funding mechanism for MSMEs, which are easy, inexpensive, and directed so that local economic growth in aggregate benefits [8]. From several studies that have been conducted, as research from Ramdhansyah and Silalahi, it can be concluded that MSMEs are still faced with capital problems, in addition to other problems both internal to MSMEs and external MSMEs that make it difficult to develop [9].

Previous research has been carried out, including Ramdhansyah and Silalahi who explained that the model of funding is wanted by MSMEs is involve formal finance (Bank), coordinator or supervisor, and the owners of fund. Meanwhile Bhakti explained first: implementation of financing on Sharia financial institution related with the profit sharing

principal perceived become ideal solutions for SMEs [10]. Second; related with the factors that become the barrier on implementation of Sharia financial institution with the point of profit sharing principal and the Third; related with the right solution to overcome the barrier factors on the implementation at Sharia financial institution concerning exact profit sharing principal. Ismanto and Diman explained that financing programs have an important role to SMEs, but often face the problem of repayment failures and installment payments [11]. In these studies not discussed the financing of MSMEs by empowering the MSME community itself so as to increase business independence and reduce dependence on third party financing. Therefore, in this study will be discussed about the development of a community-based MSME financing model.

II. METHOD

This study aims to develop MSMEs financing models. The method used in this research is research and development methods. According to Sugiyono "research and development methods are research methods used to produce certain products, and test the effectiveness of these products" [12]. Research and development methods are a process for developing a new product or perfecting an existing product.

The stages in this study operationally adopted the Borg & Gall model consisting of: 1) Research and data collection; 2) Planning; 3) Model Development; 4) Model Validation; 5) Model Revision; 6) Model Trial; 7) Model Revision; 8) Wider Trial; and 9) Final Model Revisions [12].

The object of this study is the small and medium micro business of Bandung which is classified into: fashion, food and beverage, handicraft, services, trade.

Population in this research is entrepreneur of UMKM in Bandung which amounts to 225 UMKM. The number of research samples refers to the Krecjie table to obtain the number of 142 MSMEs. Sampling technique using Probability Sampling with Random Simple technique.

III. RESULTS

The results of this research showed that MSMEs face many problems in funding of their business, especially from the formal finance (bank). The role of bank as one of main source of financing still relatively small because the complexity of loan procedures. So that financing sources used to increase their capital was dominated by non-formal finance, as seen in the diagram below:

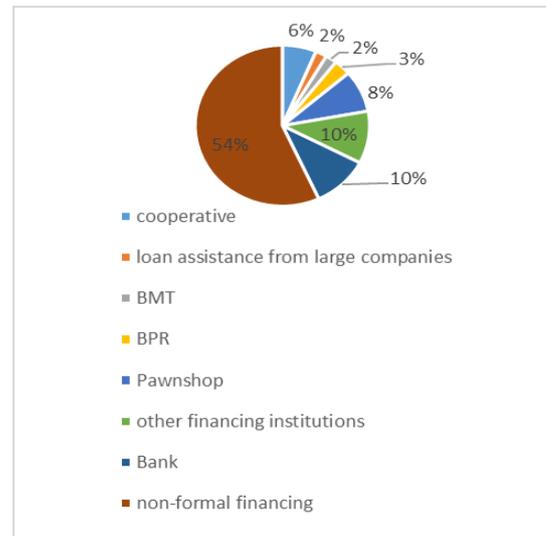


Fig. 1. MSMEs financing sources.

From figure 1 above, it can be seen that the biggest source of financing for MSMEs is non-formal financing. Bank financing only reaches 10%, due to difficulties in meeting loan requirements.

IV. DISCUSSION

A. Description of MSMEs Business Independence

Business independence in MSMEs is very influenced by human resource factor because Micro business is highly dependent on human factors that run and very not depend on the machine so that the quality of human resources become the determinant for the efforts of a micro business both business owners and business employees who take part in carrying out daily business activities. Human resources are expected to give influence to independence through empowerment efforts such as conducting management training, accounting training, motivation training, and training related to the business undertaken.

In addition, the central and local governments provide a very strong role to the ability of micro enterprises to continue powerless because the policies issued by the government and local governments through regulations related to micro-enterprises will have a direct impact to empowerment efforts such as by issuing laws that provide protection for micro businesses, providing facilities and infrastructures such as business premises, tools, easily accessible machines, helping to connect with parties concerned about micro business actors, opening up broad opportunities for improving human resources such as providing free training for micro business actors.

Business independence is strongly influenced by business capital, but business capital has been a scourge for micro businesses because they find it difficult to get a capital loan even if there are very high interest so that business actors are unable to make payments or installments, even often requested various requirements such as collateral incriminating. Capital Business is easier to obtain because the terms of easy disbursement and a mild interest to the desires of business

actors. Thus they will be easier in running their business this will be able to empower micro business for example by increasing the role of banking both national and regional banks to pay more attention to micro business, increasing the role of cooperatives as a pillar for the development of micro business that ultimately this business capital to establish micro business.

B. Description of MSMEs Financing

In general, MSMEs financing still rely on financial institutions, but the financing programs that have been proclaimed by the government cannot be utilized optimally by all existing MSMEs. This is due to limited access from MSMEs and the difficulties of MSMEs meet the requirements set. For MSMEs who have obtained financing also face new problems in terms of financial management. Limitations of knowledge on bookkeeping and the absence of separation between personal finance and business finance make the credit received cannot be utilized optimally. In addition, the lack of innovation and creativity makes MSMEs trade sector less competitive with modern markets. The following description of financing conditions of MSMEs in Bandung:

- Government policy is good through various memorandum of understanding the institution which became known as the people's business credit program through Bank Indonesia regulation No.14 / 22 / PBI / 2012 has shown the government's attention to provide solutions to MSMEs related to capital issues by running the role of financing institutions as an alternative source of financing for MSMEs. But in reality, this program is not easy to be implemented either by MSMEs or by finance institutions. MSMEs find it difficult to meet the requirements set by financial institutions, especially in the case of bookkeeping and collateral. Likewise, financing institutions find the feasible and bankable MSMEs difficulties to be financed to avoid non-performing loans.
- Currently access to financing MSMEs more obtained from commercial banks compared with financing institutions such as cooperatives and non-bank financing institutions. Competition among finance institutions makes the less popular non-bank financing institutions decrease the number of debtors. Nevertheless the share of MSMEs for financial institutions is still large.
- Non-bank financing institutions face obstacles to obtain information on prospective borrowers. This is useful to avoid overlapping credit/loan that will cause payment difficulties.
- In the case of credit/loan payment, the financing institution has innovated the billing system. Financing institutions are more aggressive in approaching MSMEs. The monthly billing system was changed to daily for the trading sector. Billing system "pick up the ball" in the sense of coming to one-on-one debtors, currently conducted by finance institutions both banks and non-banks. This daily billing system helps MSMEs save time and effort and also avoids SMEs from potential problem loans or even bad credit. The system

also allows financing institutions to close business monitoring and provide personal coaching on how to manage businesses and finances. Daily billing system also makes MSMEs feel the installment and interest or profit sharing system imposed by the financing institution becomes lighter so that MSMEs have no difficulty in making payments. This condition causes the number of problem loans to be small.

C. Model MSMEs Financing Based Community

The financing model developed in this study is the Community Based Financing Model, with the following procedures:

- MSMEs entrepreneurs form a capital group consisting of 10 people. Members of the capital group must be members with the same vision, commitment and a good track record. If all his status has a business, then it must be proven that his business exists and runs. It would be great and easier if all members of pokdal live in one city so that meetings between members can be held intensely.
- Creating a forum for communication between groups of capital as a means of gathering online, such as WA groups or others which became a place to gather online. Make room for business masterminds too.
- Conducting regular meetings that are held in one house pokdal members with banquets to be a member of the obligation as a host. And if the meeting is held in one place to eat, then the cost of eating is charged to each member.
- Establish a core management by establishing a chairman, treasurer and secretar. This stewardship can be rotate for example every year a change is made.
- Creating a single account that can be accessed by all members of pokdal, so that funds can be monitored together for 24 hours.
- Establish compulsory savings every month mutually agreed upon. The value of this mandatory savings can be agreed upon according to the ability of all members of pokdal. For example Rp 200.000,00, Rp 500.000,00 or Rp 1,000,000.00. The value of this mandatory savings should be the same, the bigger the better, as long as not incriminate other members. If the mandatory savings of 1 person deposits agreed Rp 1,000,000.00 / month. So in 1 month collected Rp 10.000.000,00, if Rp 2.000.000,00 / month then Rp 20.000.000,00, if Rp 3.000.000,00 / month it will be collected Rp 30.000.000,00, or Rp 4,000,000.00/month will be collected Rp 40.000.000,00 and so on.
- Make the rules of the game, only members of pokdal who can borrow funds. Funding requirements are also determined only for short-term business capital and for emergency loans. Funds should not be lent to the needs of the consumer, such as buying a new motor or a new mobile phone.

- Short Term Capital Loans shall be granted to members for business capital within a maximum period of 2 months. The agreement is member can borrow without profit sharing (borrow Rp 10.000.000,00 in a month return Rp 10.000.000,00 as well), or by borrowing capital with syirkah mudhorobah (profit sharing) 30% of total profit. So for example there are members using funds Rp 10.000.000,00 to work on a project, within two months of the project get a profit of Rp 5.000.000,00. So Rp 1,500,000.00 is given to pokdal as profit share and capital Rp 10.000.000,00 also returned. So that pokdal assets also become increasing. If there is a loss because it is not the user's negligence then the fund is considered a total loss and the loss is borne alongside all members. If the loss is due to user negligence, then it can be agreed that the capital is returned gradually without interest and penalty, without provision, without penalty. It must be mutually agreed upon, the borrower must also commit to its business is properly managed so as not to lose money. The proposal should be clear with careful calculations to be discussed in the pokdal group. The possibility is that members do not "flatten" (feel easy to get capital and if loss of capital is considered lost), mentally like this that will damage pokdal. So from this rule can form a positive attitude, to take full responsibility.
- Emergency loans may be provided to members if health funds are needed, such as when a family member is sick and needs funds for treatment, then funds are lent and given a 1-month opportunity to return. Mudhorobah money can also be obtained from the money collected, if there are members who emergency can be given partly as compensation.
- If all members committed and orderly, within a year will be collected group capital of Rp 120.000.000,00, not from the results mudhorobah earlier. The longer the more funds are saved
- The addition of members can not be done anytime, because this capital group is not a bank or a cooperative that competes to add customers and members. Hold the commitment of 10 people so as not to complicate the management.
- The commitment of each member is crucial to the sustainability of this group of capital, so if any member begins to indicate a lack of commitment, as every meeting never comes, always passive, then a mutual agreement of the member may be offered to resign. Return all the money he has saved. Total 100% without interest, fine or deduction.
- If you want to find a replacement member to be 10 people again, then the new member must have the same vision and is willing to save a loan which totaled is the same as with the old members.

V. CONCLUSION

Financing of MSMEs in the city of Bandung still rely on third parties as a provider of capital assistance, but the flame faced by SMEs through the given scheme is a requirement that must be met to get the loan and interest on the loan imposed. MSMEs is still not fully independent in doing business because there are some things that still depend on others. MSMEs financing model to increase business independence is a model of community-based financing is a model that allows entrepreneurs to have higher business independence by forming a group of capital among entrepreneurs themselves with procedures and regulations that are made and adhered to together, so that capital is no longer a constraint to develop the business.

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