

THE ROLE OF SHARIA FINANCING AND THE CHARACTERISTICS OF BUSINESS INSTITUTIONS TOWARDS MICRO, SMALL, MEDIUM ENTERPRISE DEVELOPMENT

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Abstract—Micro Small Medium Enterprises (MSMEs) are one of the strongholds of the people's economy so that Indonesia's economic condition does not become worse. MSMEs are able to push the national economy even in times of economic crisis. Financing made by sharia banks to MSMEs is very important in supporting the increase in income of MSMEs. The purpose of this research is to analyse the role of sharia financing and business institutional characteristics for the development MSMEs in Solok city of West Sumatera. The data used was primary data. The data was analysed using descriptive analysis (cross-tabulation and chi-square test), validity and reliability tests, binary logistic regression, and a wilcoxon rank test. Based on the validity test, there are five valid variables and six tested variables: the amount of financing, business legality, long period of business, and business development training. The significance test shows that the amount of sharia financing and business development training has a significant effect on the increase of MSME income. The logistic regression estimation shows that MSMEs that get sharia financing have a bigger chance to increase their income compared to MSMEs which do not get financing. The results show that there are differences in income, profits, and labour before and after obtaining sharia financing.

Keywords—business development training; institutional characteristics; logistic regression; MSMEs; sharia financing

I. INTRODUCTION

The principle of sharia bank is defined as the rule of agreement based on Islamic law between banks and others in the depositing of funds and the financing of business activities or other activities in accordance with sharia, such as financing with the principle of profit sharing (mudharabah), financing based on the principle of equity participation (musharakah), the principle of buying and selling of goods by obtaining profit (murabahah), or the financing of capital goods based on the principle of pure lease without choice (ijarah) and others. Bank Indonesia noted that the sharia finance portfolio in the MSMEs sector reached 70 percent of the total financing, or 58 trillion rupiah by the end of September 2015. If referring to BPS data, there are about 52 million MSMEs entrepreneurs. Out of the total, 90% are micro entrepreneurs. In terms of Islamic financing, the percentage

distributed to MSMEs reached 70 percent of the total Islamic financing or 58 trillion rupiah per September 2015, either through the Islamic Commercial Bank (BUS) or Islamic Rural Banks (BPRS). As for the consumer segment, own financing only reached 23.9 trillion rupiah [1]. Solok city, as one of the cities in West Sumatra Province, has the potential in the development of sharia banks. Currently, the number of MSMEs in Solok City up to mid-2015 was as many as 1,465 MSMEs, consisting of 1,361 micro businesses, 111 small businesses and 2 (two) medium enterprises. The survey results of small and medium enterprises by BPS Solok city in 2012 stated that the businesses in the sector of trade in services and industry in Solok city amounted to about 800 businesses. Most businesses have been established for a long time and do not have legal entities. Most entrepreneurs graduated from high school. When viewed from the perspective of gender composition, there are more male workers than women workers. The capital used for business is mostly self-owned, while Small Business Loans (KUK) and Business Feasibility Loans (KKU) are used by many entrepreneurs [2]. Assistance in the form of capital and support that further supports the business climate is necessary for small and medium enterprises in Solok City.

There are many studies that have shown the positive effects of sharia financing on the lives of its clients. Islamic microfinance has been a successful tool in the development of many countries with a significant impact on wealth at the household level [3]. Faisal [4] conducted a study on the role of Sharia Bank financing in real sector development. The results of this study concluded that, in reality, most of the financing provided by sharia banks in East Java is to finance consumptive activities or financing with a sale and purchase agreement (murabahah), so that financing is provided based on profit sharing. According to Kara [5], the presence of sharia banking has a great impact on the growth of the real sector of SMEs, which in the national economy now has a very important position, because of its contribution in relation to employment and gross domestic product (GDP), as well as its flexibility and resilience in the face of economic crisis. The impact of the current financial crisis on Islamic finance is less marked than

that on conventional finance. During turbulent times, socially responsible investments and ethical finance are required to reassure investors and to stabilise the financial markets [6]. Ananda [7] analysed the development of MSMEs after obtaining mudharabah financing. There are differences in the sales and profit variables before and after obtaining financing. Hariyati [8] found that the role of Syariah Bank in optimising MSMEs in Yogyakarta has not become optimal yet, in that the obstacles found in optimising the business is down to irregular management resulting in losses for the company. The constraints that often arise are to do with capital, in which small to medium businesses bump into existing capital and they cannot borrow because the collateral provided is not eligible. The existence of sharia financial institutions should be very helpful in business expansion. Research conducted by the researchers themselves, Kamarni [9], showed that the institutional characteristics of agricultural productivity showed poor results, so it should be improved in order to play a role in improving agricultural productivity.

Currently there are 3 (three) shariah banks in Solok City, namely Bank Nagari Syariah, Bank Mandiri Syariah, and Bank Muamalat, which began about seven years ago. Sharia banking in Solok City has been providing financing to MSMEs since its establishment for the development of MSMEs in the city of Solok. However, the development of MSMEs in the city of Solok cannot be separated from the institutional business undertaken by the MSMEs. Therefore, the purpose of the research is important; to know how the influence of Islamic financing variables and business institutional characteristics impact on the development of micro, small and medium enterprises in Solok city. The extent to which the impact of the provision of Islamic finance contributes to the development of MSMEs in the city of Solok can be viewed from the aspects of income, production, sales, and profits.

II. METHODOLOGY

A. Research Design

This research is a quantitative descriptive research study, which aims to describe and explain the role of Islamic bank financing and business institutions/MSMEs in Solok City. The data type is derived from the primary data originating from the original or first source. In this study, the data was collected through the distribution of questionnaires to MSMEs receiving Islamic bank financing in Solok city as the intended respondents. The sample of the respondents who replied was 69, who were all owners of MSMEs.

B. Data analysis method

The data analysis method used was a descriptive analysis of the frequency and a descriptive analysis of the data cross-tabulation. To test the accuracy of the measuring instruments in performing its measuring function used a validity and reliability test. Logistic regression analysis was used to find out the influence of the independent variables consisting of shariah financing and business institutional characteristics (business legality, length of business, financial statements, business type and business development training) to increase the MSMEs revenue. The wilcoxon test was used to determine the impact of sharia financing on the development of MSMEs analysed from

income, profits and labour [10]. The logistic regression model can generally be written as follows [11]:

$$\text{Ln} \left(\frac{p_1}{1-p_1} \right) = \beta_1 + \beta_2 x_i + u_i \quad (1)$$

So the logistic regression model in this research are:

$$\text{Ln} \left(\frac{p_1}{1-p_1} \right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + E \quad (2)$$

Where :

$$\text{Ln} \left(\frac{p_1}{1-p_1} \right) = \text{Odd ratio}$$

P = The percentage of MSMEs can increase their income

1 – p = Percentage of others

β_0 = Constant

β_1 = Regression Coefficients ($\beta_1, \beta_2, \dots, \beta_i$)

X = Independent Variable (X_1, X_2, \dots, X_i)

X_1 = Amount of Sharia Financing

X_2 = business legality

X_3 = length of business

X_4 = financial statements

X_5 = business type

X_6 = business development training

E = Error Term

III. RESEARCH RESULTS AND DISCUSSION

The descriptive results of this study show that the respondents who get financing of more than ten million rupiah (75.3%) are more than the number of respondents who get financing of less than ten million rupiah. The number of respondents who have never attended a business development training (76.8%) is more than those who have attended business development training. The length of business experience is categorised into two categories: MSMEs who have had business experience over five years and under five years. MSMEs with more than five years of business experience (63.8%) are more than the respondents who have business experience under five years. The type of business in this study is categorised into two groups, the type of business that gets the most financing in trade and services 91% and the business industry only makes up 8.7%. Most MSMEs that obtain financing have a business license (78.3%). To see the development of the performance of a business required a financial report, most of the financing was given to MSMEs who already have financial statements (81.2%), but there are still some MSMEs who get financing does not have financial statements.

A. Cross-tabulation Analysis

The respondents who received financing above ten million rupiah was as many as 50 of the respondents. Only 3 respondents did not increase their income. 51 respondents had never attended business training, 47 of which said it could increase their income. 16 respondents had never attended business training, which could increase their income. There were 25 MSMEs whose business experience was less than 5 years but that could increase their income for as many as 15 of the respondents, for MSMEs who have had more than five years business experience that can increase their income for 35 out of

42 respondents. 15 respondents did not have a business license, while 52 respondents already had a business license. The financing provided by sharia banking, business development training, business legality and the length of business experience has a significant effect on the increase of the MSMEs income.

Most types of MSMEs are trade and services, from the type of business and industry that is able to increase the income of 45 respondents and from the industry, there were only 5 respondents. This is because the respondents who are engaged in the industry are very few. Many of the MSMEs in Solok already have a financial report, which can increase their income; 42 out of the 54 respondents already have a financial report. However, the types of MSMEs and financial statements do not have a significant relationship to MSME revenues.

B. Test Validity and Reliability

A variable is said to be valid if the value of the *r* test (corrected item-total correlation) > *r* table. The *r* table value in this research is 0.24. Of the 6 variables tested, there are 5 valid variables based on the validity test, namely: financing (X_1), business legality (X_2), variable of business length (X_3), variable of business development training (X_6).

Table I. RESULTS OF VALIDITY AND RELIABILITY TEST

	Scale Mean if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Sharia Financing	3.7164	0.769	0.747
Legality	3.6866	0.587	0.788
Length of business	3.8358	0.312	0.852
Business type	10.5821	-0.009	0.514
Financial statements	10.6866	0.064	0.508
business development training (X_6)	3.7015	0.598	0.786

The initial value of reliability is 0,504. By eliminating the variables X_4 and X_5 , Cronbach's alpha value becomes higher; 0.818 is the overall value of the reliable variable.

C. Binary Logistic Regression Model

The result of the equation of the binary logistic regression model, by not including the non-valid variables are:

Table II. RESULT OF LOGISTIC REGRESSION EQUATION

	B	Wald	Sig.	Exp(B)
Sharia Financing (X_1)	3.977	5.874	.015	53.356
Legality (X_2)	-2.215	1.346	.246	.109
length of business (X_3)	2.206	1.532	.216	9.078
business development training (X_6)	5.282	6.680	.010	196.821
Constant	-7.719	5.570	.018	.000

The logistic regression equation formed based on the above table is:

$$Ln\left(\frac{p_1}{1-p_1}\right) = -7.719 + 3.977X_1 - 2.215X_2 + 2.206X_3 + 5.282X_6 \quad (3)$$

From the above equation, the value of intercept is -7.719 so that value $\left(\frac{p_1}{1-p_1}\right) = e^{-7.719}$ or the value of probability $P = \frac{e^{-7.719}}{1 + e^{-7.719}} = 0.43$ which means, when all of the variables are 0 or have the following characteristics: the amount of financing ≤ 10 million rupiah without the business legality, the business experience ≤ 5 years, and without any business development training, the probability of respondents to increase its income is 0.43 (43%).

The variable amount of financing has a value of significance equal to 0.01, which means that the variable of financing has a significant effect towards the earnings of MSMEs, with a parameter of 3.997. This means that MSMEs who get financing have a bigger chance to increase their income compared to MSMEs who do not get financing. The value of the Odds Ratio is 53.356, which means that MSMEs who get financing have a chance to increase their income 53.356 more times than the MSMEs which do not get financing.

The variable of business development training has a significant value of 0.010 which means that the variable of business development training has a significant effect on MSMEs revenues. The parameter of 5.282 shows that the respondents who attended business development training had a greater chance to increase their income compared to the respondents who did not attend the business development training. The value of the Odds Ratio of business development training variables is 196.821, which means that the MSMEs participating in business development training have an opportunity to increase their income by as much as 196.821 times compared to those who have never participated in the training.

The significance value of 0.216 on the variable of length of business indicates that the length of business does not significantly affect the income of MSMEs. This is because the business is not run as a main business, but instead as a side business, because most people in Solok City also work as civil servants or farmers. In business legality, the variables obtained a value of significance of 0.246. This means that the variable of business legality has no significant effect on MSME revenue. This is because businesses that do not have a business license can still get financing even on a small scale and the probability of a smaller revenue increases.

The results of this study states that there is a significant effect of sharia financing on the development of SMEs in line with the research by Ahamad [3], Faisal [4], Kara [5], but not in line with the research by Hariyati [8]. The overall business institution is not significant in increasing the income of UMKM. This is quite in line with the research of Kamarni [7] in which significant business institutions increase the business income of the community.

Based on the results of this study, policies can be recommended to the government to support the development of MSMEs to provide convenience to the public in obtaining financing and to provide business development training to business actors, both in new and pioneering businesses. Providing ease of business permits for new entrepreneurs means that they can be facilitated in obtaining financing from financing institutions. Based on the analysis of the influence of Islamic financing and institutional characteristics on the development of MSMEs in the city of Solok, it is known that MSMEs play an important role in increasing public revenue, so the government should be proactive in programs related to Islamic finance and MSME business institutions.

Conclusion

Based on the results of this research study, business legality, length of business, financing, and business development training have a positive effect in increasing the income of MSMEs. However, the significance test shows that business financing and training are very influential on the increase of MSMEs income. Education, legality, and length of business have no significant effect. The results of the research also shows the difference of MSME income before and after obtaining shariah financing and it will have a positive and significant effect on the development of MSMEs viewed from the side of the labour force and profits.

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