

The Role of Sharia Microfinance in SMEs Business Development

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Abstract: This study aims to identify and analyze the development of SMEs after receiving financing from Sharia Micro Finance Institutions. Business development measured by sales volume. The research method used descriptive method by comparing business condition between before and after receiving financing. The population of this study are the recipients of financing from sharia micro finance institutions with a sample of 30 people obtained using simple random sampling technique. The result of the research shows that the development of SMEs business in Indonesia is 67.5 percent influenced by the role of Islamic microfinance institutions, especially in financing, sdangkan the rest of 32.5 percent influenced by variables that are not examined This finding implies that to improve the prosperity of SMEs can use financial institutions as a solution in overcoming financial problems. In addition, the importance of government in disseminating the existence of Islamic microfinance institutions to SMEs especially in the face of the era of competition.

1 INTRODUCTION

Microfinance is defined as an institution that provides financial services. In other words, MFIs are institutions that provide financial services for small and micro entrepreneurs and low-income communities that are not served by formal financial institutions and have been market-oriented for business purposes. (E Amalia, 2009).

In operation microfinance there are conventional and sharia. Sharia based on the Qur'an and hadith, while conventional based on interest. (A Machmud, 2010). In sharia economy BMT is a representation or other form of microfiance which already exists, of course run and adapted to the principles and values of Islam. Thus, sharia finance institutions are financial institutions which provides financing for micro enterprises that are run on the basis of Islamic principles, principles and values. Sharia microfinance institutions that apply Islamic values will provide benefits to the products and services offered to the poor. Because the true Islamic economy is different from the conventional economy that only focuses on self-interest (maximizing personal satisfaction and profit). Islamic economics has social values that seek to help each other.

If we look at the reality of Indonesia's current economy, more than 99% of business units are SMEs and absorb about 97% of their workforce, as well as its contribution to Indonesia's Gross Domestic

Product (GDP) of 57%. This is one reason why Indonesia is spared the global economic crisis, besides the high level of domestic consumption. In other words, the MSME sector has a strategic role and function in supporting and maintaining the stability of the national economy. However, unfortunately this MSME sector lacks support in terms of funds, technology, and government support. One example is the difficulty in obtaining financing because it is struck by bank rules in giving credit through principle 5c (character, capacity, capital, condition, collateral). (A Machmud, 2014, 2016).

SMEs play a significant part in economic growth worldwide including in African countries. Studies point out that in developed and developing economies SMEs contribute on average 60% of formal employment in the manufacturing sector (Ayyagari et al., 2007). In Africa, SME sector's total contribution in job creation in manufacturing is about three-quarters (Ayyagari et al., 2007). An important aspect for SME sector development is access to finance particularly from financial institutions. Le, Venkatesh and Nguyen (2006) pointed out that the achievement stage for any particular SME is to have adequate access to external sources of finance. Firm-level data collected by the World Bank show that shortage on access to finance perceived to be one of the main obstacles to doing business. Several studies have revealed that financing is a major constraint for SMEs to grow than for larger firms, mainly in the

developing world (Beck et al., 2005; Beck et al., 2006; Fatoki & Assah, 2011, Kira & He, 2012).

With the difficulty of the SMEs sector in accessing financing to banks, especially micro-enterprises, the initiative of strengthening microfinance institutions (MFIs) becomes a central and important issue in economic studies, how this MFI can reach the poorest communities. The division of poverty categories namely; a. Extreme poor, b. Economically active working poor, c. Low income. The role of the state in this case is necessary to create regulations that can touch the underprivileged under various means, one of which is to make strict regulations for small and medium enterprises (SMEs) and Micro Finance Institutions (MFIs). On the other hand, the role of women in the sector of SMEs needs to be considered and improved. In order to create emancipation in the economic field, that women can compete and equal with men so that gender becomes biased. There is only the competent or not.

The study related to SMEs has been done by researchers both in Indonesia and the world, the study focuses on the problems of SMEs (Urata, 2000), Small Business Empowerment Financial Aspect (Machmud, 2009, E. Suprayitno, 2013, Wiku Suryomurti, 2011). Study of SMEs with financial institutions (Machmud, 2016). Nevertheless, the study of SMEs related to Microfinance sharia is still rare.

This study aims to examine, identify and analyze the role of sharia microfinance institutions in the development of SMEs. This finding is expected to be an input for policy makers in formulating strategies; UMKM development.

2 METHODS

The method used in this study is an explanatory survey with data collection techniques through questionnaires and interviews. The population in this study is the SMEs receiving financing from microfinance totaling 30 people. The data that has been collected is then analyzed by using regression analysis. Characteristics of female respondents as many as 18 people and 12 men. The level of education in general (93 percent) is educated to downward, up to 7 percent of the above (D2, S1). The amount of financing received ranges from Rp 1 million to Rp. 6 Million.

3 RESULTS AND DISCUSSION

Based on the results of the study, the SMES performance is obtained before and after receiving financing from microfinance as measured by the profit earned. The results can be seen in the following equation:

$$\begin{aligned}
 Y &= -2,834 + 0,966 \quad (1) \\
 t_{\text{hitung}} &= 2,586, \\
 t_{\text{table}} &= 2,160 \\
 r &= 0,861 \\
 R^2 &= 0,675
 \end{aligned}$$

Equation 1 shows that every 1 percent increase in financing given to customers, then resulted in income nasabah will increase by 0.966 percent. The value of t is greater than t table, it means that statistically sharia financial institution have a role in developing smes business. The relationship between sharia micro finance institution and SMEs development is included in strong criteria. This is evident from the value of $r = 0.861$. The size of the influence of Islamic microfinance institutions to the development of SMEs by 67.5 percent. This means that the development of SMEs business in Indonesia is 67.5 percent influenced by the role of Islamic microfinance institutions, especially in financing, While the rest of 32.5 percent influenced by variables that are not examined.

When a member has a high enough income, they will seek to expand and expand their business in order to further their business and want to earn higher business revenues to propose even more financing. Sharia microfinance institutions were established with the aim of providing support for Micro and Small Medium Enterprises (SMEs) in terms of financial. Sharia micro finance institutions are expected to reach SMEs who are difficult to access the financing products of major banks. To that end, sharia micro finance institutions provide financing products for SMEs to be assisted in solving capital problems.

Sharia microfinance institutions have several financing products, namely mudharabah financing products, musyarakah financing and murabahah financing. Financing products are expected to run in balance because it is very useful for the community. In practice, however, most shariah microfinance institutions still prioritize the implementation of products that are considered safe and profitable. Sharia microfinance institutions are expected to prosper the community, but on the other hand Islamic microfinance institutions are inseparable from the

existence of business practices that take profit and loss. Financing products that become a favorite of sharia micro finance institutions are murabaha. Murabaha financing is in great demand because the risks are small and tend to be profitable. But on the other hand, this financing only makes the customer as consumer pengabis money because the money is used for consumption. While mudharabah financing into the product of sharia financial institutions that portion less. Mudharabah financing does have a weakness of risk level and less profitable. Whereas the financing of mudaraba is very good if the financial institution apply it to bridge micro entrepreneurs so that the lower level economy is lifted up. For that in this paper the author tries to describe the importance mudharabah financing for sharia financial institutions.

The government has a big role in developing SMEs in Indonesia, because important policy makers can only be done by the government. As we know with SMEs in Indonesia today experiencing a great competition with imported products circulating in Indonesia. It will certainly make it more difficult for SMEs to expand its business, because the products are in the results of losing competitiveness with products from abroad. This situation can not be allowed to continue to continue, because it can affect the condition of the Indonesian economy. This can happen because SMEs contributes the largest GDP in Indonesia. Steps that can be taken by the government related to the progress of SMEs in Indonesia is denhan apply some policies to protect SMEs, including establish

- a. Quota policy on products that will enter Indonesia, This means that the products produced by SMEs in Indonesia can reach the market, because imported goods become less due to restrictions. Establish
- b. High tariff policy. So that the imported products selling prices in the Indonesian market becomes higher in comparison with overseas products.
- c. Thus SMEs can still expand its business enable SMEs in handling licensing places and businesses, with a good bureaucracy SMEs can easily get services related to licensing matters.
- d. Provide proper facilities such as large entrepreneurs, especially in terms of facilities, for example strategic location strategic location and other facilities (water, roads, etc.) SMEs in developing their business, certainly require capital.
- e. This is a problem of SMEs, because in adding money when having to borrow money to commercial banks of course the process is long

and convoluted. So the role of Sharia Microfinance F is very important in terms of capital lending to SMEs with easy terms; prases that are fast and not burdensome SMEs other than the system of transactions using the system of sharia.

4 CONCLUSIONS

Based on the findings that microfinance plays a role in encouraging the development of SMEs business. There is a difference in sales volume between before and after receiving financing, & nbsp; Sales volume after getting financing to be better when compared to before getting financing, thus the financing provided by Sharia Microfinance positively affect the volume of business sales run by customers. These findings imply that the Government is expected to be able to provide financial institutions that can lend to small businesses to grow. The bank is considered too burdensome for the small business because of the interest that is considered burdensome SMEs. It is expected that the government reaches remote areas or away from urban areas and provides socialization about the importance of education, as there are still many respondents who have low education level. An entrepreneurship training is needed for small and micro entrepreneurs, due to the need for a special skill to make the business grow larger. With the holding of the training then the business owner will be able to manage his business better.

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