



## DETERMINANT FACTORS OF MSME FINANCING IN ISLAMIC BANK (STUDY CASE IN INDONESIA)

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### ABSTRACT

*Micro, Small and Medium Enterprise (MSME) is an important segment of the Indonesian economy. The amount of MSME in Indonesia is 99,9% of the total entrepreneurs, it has high employment absorption and has a big contribution to the GDP. Despite the importance of MSME in Indonesia, financing, and lack of information become the main problem in MSMEs growth. In addition to financial assistance, Indonesia's MSMEs also need partner and guidance to help them grow. Islamic bank is an important segment in Indonesia's banking industry. We believe with a good coherency within Islamic Bank and MSME, both can support each other better either in financial aspect and management aspect. Therefore this research try to give an understanding what is the determinant factors of Islamic Bank financing for MSME, either in bank umum syariah and unit usaha syariah. This research use time series data of Islamic Bank financing, which monthly released by Otoritas Jasa Keuangan. There are several factors examined in this paper, which are Net Performing Financing (NPF), Return On Financing (ROA), Third Party Funds or Dana Pihak Ketiga (DPK), number of offices, number of workers and policy rate.*

### INFO ARTIKEL

Diterima: 6 April 2019  
Direview: 8 April 2019  
Disetujui: 25 April 2019  
Terbit: 30 April 2019

#### **Keyword:**

*MSME, Financing, Islamic Banks*

### PENDAHULUAN

Micro, Small and Medium Enterprise (MSME) sector is an important business sector for Indonesian Economy. Over the past few years, MSME has been able to prove itself to grow and play an important role in the economy of this country. According to Bank Indonesia report (Sarwono, 2015), MSME contributed more than 57% of total GDP in 2015, Indonesia's MSME also absorb high employment which is 97% of the total national employment. Here is presented MSME business development according to [www.depkop.go.id](http://www.depkop.go.id) in 2016 and 2017 at the table below:

**Tabel 1. Development of the Micro, Small and Medium Enterprises (MSME) and Large Business Sectors**

Business Sectors	2016		2017	
	Total	Segment (%)	Total	Segment (%)
<b>Number of business (Unit)</b>	<b>61,656,547</b>	<b>100</b>	<b>62,928,077</b>	<b>100</b>
MSME	61,651,177	99.99	62,922,617	99.99
Big business	5,370	0.01	5,460	0.01
<b>Absorption of Labor (people)</b>	<b>116,273,356</b>	<b>100</b>	<b>120,260,185</b>	<b>100</b>
MSME	112,828,610	97.04	116,673,416	97.02
Big business	3,444,746	2.96	3,586,769	2.98
<b>GDP for Current Prices (Billion)</b>	<b>11,712,451</b>	<b>100</b>	<b>12,840,859</b>	<b>100</b>
MSME	7,009,283	59.84	7,704,636	60.00
Big business	4,703,168	40.16	5,136,223	40.00
<b>GDP Over Constant Prices (Billion)</b>	<b>9,045,740</b>	<b>100</b>	<b>9,504,149</b>	<b>100</b>
MSME	5,171,064	57.17	5,425,415	57.08
Big business	3,874,676	42.83	4,078,734	42.92

Source: <http://www.depkop.go.id/data-umkm>

From the table above, we can conclude that the development of the business sector in Indonesia in the recent years has been dominated by Micro, Small and Medium Enterprises (MSME) business sectors. The development of MSMEs have an important role in Indonesia economy. This can be seen from the level of contribution of MSMEs described in table 1 above, where MSMEs have a big contribution to GDP and greater employment for the past two years compared to large business units.

However, the development of MSME is not without constraints. Limited capital, a management problem, the quality human resource and limited network are common constraints faced by MSME. Along with globalization and the free market, business competition inevitably has to be faced by MSME. MSME financing is an essential factor in strengthening the position of MSME in the globalization and free-market era. Meanwhile, only 30% of MSME in Indonesia has access to financing according to Bank Indonesia report in 2015. From that percentage, Bank Indonesia recorded 76,1% MSME get the financing from the bank. Meanwhile, 23,9% get their financing from a non-bank institution such as cooperation. The amount of MSME in Indonesia is 99,9% of the total entrepreneurs. Therefore by achieving MSME prosperity, social prosperity will also be achieved. According to TNP2K report (Burger *et al.*, 2015), there are several points about MSMEs profile in Indonesia. Indonesia's MSMEs tend to pay low wages, less productive than large firms, lack formal education of the owners, and mostly only serve the local market, and do not take any steps to expand their business. This fact makes them has to face credit constraints and lack of information about market expansion or government program. By this fact, visible that MSMEs in Indonesia need a partner as well as finance.

As Indonesia applied dual banking system, Islamic bank is an important segment in Indonesia's banking industry. Islamic bank or common called by sharia bank is a pioneer in Islamic financial industry in Indonesia. According to OJK's data on June 2018, there are 13 sharia commercial banks, 21 sharia business unit, and 168 sharia rural bank. In 2016 and 2017, sharia bank assets also rise 23,5% and 33,07% consecutively. Islamic bank was born from the spirit of being free from the usury-based financial system and the spirit of mutual assistance. Therefore it is important for sharia bank to take part in MSME growth and development. Meanwhile, to take part in MSME growth and financing, there will be several things influenced the decision. This paper try

to explore these determinant factors including external and internal factors in sharia commercial banks (Bank Umum Syariah) and sharia business unit (Unit Usaha Syariah).

## LANDASAN TEORI DAN PENGEMBANGAN HIPOTESIS

### A. Micro, Small And Medium Enterprises (MSME)

According to UU No. 20 Tahun 2008 there are several criteria which categorized an enterprise as Micro, Small, Medium Enterprises. According to the act, Micro business has maximum assets Rp 50 million and sales turnover maximum Rp 300 million. Small business has assets between Rp 50 million-Rp 500 million and sales turnover Rp 300 million to Rp 2,5 billion. And medium business has assets between Rp 500 million-Rp 10 billion and sales turnover Rp 2,5 billion to Rp 50 billion. Moreover, according to its commodity aspect, MSME also has another characteristic, such as: 1. unsteadiness quality, most of MSME business limited in technology, thus the quality is not standardized; 2. Limited product design; 3. Limited product type; 4. Limited product capacity and price list; 5. Raw materials are not standardized; 6. The continuity of the product is not guaranteed and is not perfect (Burger *et al.*, 2015).

Reminding the importance of MSME in economic development, it is important to give an optimal support to MSME in many ways. Access to finance as one of their main constraint should become a main focus of every financial institutions. Islamic bank which is a reputable financial institution in Indonesia has a responsibility to take a serious action as a partner to MSME financing.

### B. Islamic Bank

Islamic bank in Indonesia was born in 1991, pioneered by Bank Muallamat. At present, the Islamic banking industry is regulated by Undang-Undang No. 21 th 2008 about Islamic bank. According OJK's data on June 2018, there are 13 sharia commercial banks, 21 sharia business unit, and 168 sharia rural bank. As a financial intermediary institution, Islamic bank has 2 functions, first is to gather fund owner (shahibul mall) from the society and then distribute this fund to fund managers (mudharib). Sharia bank in Indonesia consist of sharia commercial banks or Bank Usaha Syariah (BUS) and sharia business unit or Unit Usaha Syariah (UUS). According to UU No.21 th 2008, BUS or sharia commercial bank is a sharia bank which provides services in payment traffic. Sharia business unit or UUS is a work unit of the head office of a Conventional Commercial Bank that functions as the parent office of an office or unit that conducts business activities based on Sharia Principles, or work units in branch offices of a Bank domiciled abroad that conduct conventional business activities that functions as the parent office of the sharia sub-branch office and or sharia unit

### C. Independent and Dependent Variables

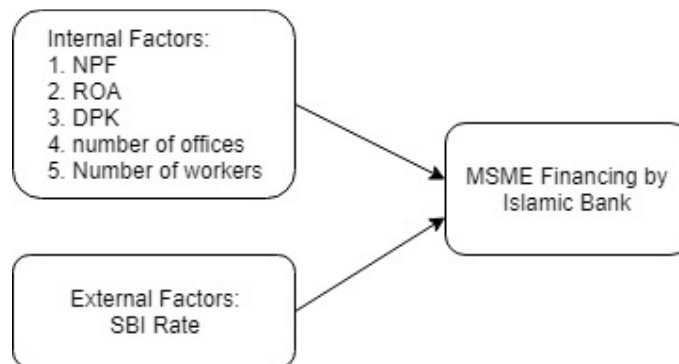
Return On Assets (ROA) is a measurement of the income or operating success of a company for a given period of time which calculated from net income divided by average total assets (Kieso *et al.*, 2013). Non Performing Financing (NPF) is measurement that classified loans which do not have a good performance, doubtful and loss. Third Party Fund (DPK) is fund derived from individuals and entities, through various products offered by bank, in this case sharia bank. Number of offices is number of offices or branch offices operated by sharia bank in the period of time. Meanwhile number of employee is number of workers employed by sharia bank in period of time. Policy rate is policy interest rate decided central bank in period of time. MSME Financing by Sharia Bank is the amount of financing for Micro, Small and Medium business sectors distributed by sharia bank in period of time.

### D. Previous Research

The decision to invest by any financial institutions including Islamic Bank will be very affected by risk and profitability potency. Research by Pratama (Pratama, 2010) stated that Non Performing Loan is significantly affect toward the banking credit distribution. Meanwhile, according to Satria and Subegti (Satria and Subegti, 2010) Return On Assets also significantly affect toward the banking credit distribution. Moreover, Murdiyanto (Murdiyanto, 2012) stated that third-party funds (DPK), Capital Adequate Ratio (CAR), Non Performing Loan (NPL) and interest rate of Bank

Indonesia certificates (SBI) effect bank credit distribution. Research conducted by Qolby (Qolby, 2013) conclude that third-party funds (DPK) in short term has positive and significant effect on bank financing. Meanwhile in the long term third-party funds (DPK), wadiah certificate of Bank Indonesia, and Return On Assets (ROA) have positive and significant effect on bank financing. Research by Suhel et al (Suhel, Asngari and Andaiyani, 2018) also conclude that The result that showed third-party financing (DPK), labor, Non-Performing Financing (NPF) and SMEs financing per branch office have had a statistically significant impact on SMEs financing, while the number of branch offices (OFC) hadn't contributed to SMEs financing. Another research by Dewi also underlined that policy rate by Central Bank are very influential on interest rate at banks, by decreasing central bank policy rate, banks were expected to increase loans or financing and can further contribute to economic development in general (Dewi, 2015).

From the previous research above, this study recommend research model as follows:



Picture 1. Research model

According to the previous researchs above, this research determine several hypotheses:

- H<sub>1</sub> Non Performing Financing (NPF) has a negative effect on sharia bank financing
- H<sub>2</sub>. Return on Assets (ROA) has a positive effect on sharia bank financing
- H<sub>3</sub> DPK has a positive effect on sharia bank financing
- H<sub>4</sub> Number of officess has a positive effect on sharia bank financing
- H<sub>5</sub> Number of Workers has a positive effect on sharia bank financing
- H<sub>6</sub> Bank Central Interest Rate (policy rate) has a negative effect on sharia bank financing

## METODOLOGI PENELITIAN

The approach used in this research is the quantitative approach. The method used in this study based on the research framework is Ordinary Least Square (OLS). The data used in this research is secondary data. This research uses monthly financial data of Islamic commercial banks and sharia business units taken from Otoritas Jasa Keuangan from period 2008 to 2018. In this research, internal factors which become independent variables are Net Performing Financing (NPF), Return On Financing (ROA), Third Party Funds or (DPK), number of offices and number of workers. Meanwhile external factor included in this research is policy rate. From the descriptive statistics below, we can resume ROA, NPF, DPK, Number of offices, policy rate and MSME financing by shariah bank either in UUS and BUS from the June 2014 to September 2018.

**Table 2. Descriptive Statistics**

Unit Usaha Syariah					
	n	min	max	mean	std. deviation
ROA	52	,16	1,41	,7850	,30338
NPF	52	3,82	6,17	4,9710	,51481
DPK	52	150530,00	251483,00	195791,9038	32444,49672
Number of offices	52	1681,00	2187,00	1945,5000	146,06640
Number of employee	52	29232,00	53748,00	48966,6346	4921,18205
policy rate	52	4,25	7,75	6,0288	1,37792
MSME Financing	52	35661,99	57153,31	44833,0652	4433,10625
Bank Umum Syariah					
	n	min	max	mean	std. deviation
ROA	52	,16	1,41	,7850	,30338
NPF	52	3,82	6,17	4,9710	,51481
DPK	52	150530,00	251483,00	195791,9038	32444,49672
Number of offices	52	1681,00	2187,00	1945,5000	146,06640
Number of employee	52	29232,00	53748,00	48966,6346	4921,18205
policy rate	52	4,25	7,75	6,0288	1,37792
MSME Financing	52	35661,99	57153,31	44833,0652	4433,10625

**HASIL DAN PEMBAHASAN**

After make sure there were no problem with the data including classic assumption in the regression model, this paper present statistic model such as below:

$$MSME_{Financing} = \alpha + \beta_1NPF + \beta_2ROA + \beta_3DPK + \beta_4Offices + \beta_5workers + \beta_6SBI + e \quad (1)$$

Table 3. F-test

Regression Summary	R	R square	F	Sig
Research Model: UUS	0.893	0.798	29.637	0.000
Research Model: BUS	0.798	0.637	13.140	0.000

From the 1st research model, it is known that MSME Financing in Islamic commercial banks (BUS) indeed simultaneously affected by ROA, NPF, DPK, number of offices, Number of employee and policy rate, seen by its significance is 0.000 less then 0.05. The R Square of this model also 0.798, it means the independent factors presented in this research effect 79,8\% of MSME Financing by Sharia commercial bank (BUS). Meanwhile from the 2nd research model, it is known that MSME Financing in Sharia business unit (UUS) also simultaneously affected by ROA, NPF, DPK, number of offices, Number of employee and policy rate, seen by its significance is 0.000 less then 0.05. The R Square of this model also 0.893, it means the independent factors presented in this research effect 89.3\% of MSME Financing by Sharia business unit (UUS). For the partial test for each variables presented in table 3 below:

Table 4. t-test

t-test Results	UUS			BUS		
	Beta	t	sig	Beta	t	sig
ROA	-.071	-1,484	,145	,026	1,342	,186
NPF	-.083	-3,358	,002	,000	-,030	,976
DPK	,347	2,072	,044	,104	,596	,554
Number of offices	,088	,253	,801	1,056	4,232	,000
Number of Employee	-.018	-,479	,634	-,451	-4,142	,000
policy rate	-,038	-2,690	,010	-,016	-1,950	,05

From the table above, we present the result of t-test from both UUS and BUS for each independent variables. In sharia commercial bank (BUS), its MSME financing affected by number of offices, number of employee, and policy rate. Meanwhile ROA, NPF, DPK do not effect MSME financing by sharia commercial bank (BUS). In sharia commercial bank (BUS) number of offices has a positive effect on MSME Financing, because of the number of offices owned by BUS, enable BUS to access and allows them to meet more customers. This result coherent with the initial hypothesis. Meanwhile in this research, number of employee/workers has a negative effect on MSME financing. This result different with the initial hypothesis that number of workers or employee has a positive effect in MSME Financing by sharia bank. Theoretically, the bigger the amount of workers in an entity enables them to meet more customers, however the opposite could happen if the human resources does not managed well. This research result matching with the research result by Tho'in, he stated that the competency of human resources sharia bank at the level manager is good, meanwhile in the employee (low management) level still needs a lot of attention and improvement because the level of education there are still low, still a little training, and experience is not adequate (Tho'in, 2017).

In sharia business unit (UUS), its MSME financing affected by NPF, DPK, and policy rate. Meanwhile ROA, number of officess, and number of employee do not effect MSME financing by sharia business unit (UUS). NPF has a negative effect on MSME financing by UUS, this result are coherent with research result by Murdiyanto which stated that DPK has a positive effect on MSME financing by UUS (Murdiyanto, 2012). in This research also concluded that policy rate has a negative effect on MSME financing which is coherent with the initial hypotheses.

There are several implications that can be drawn from this research:

1. There are differences between determinant factors affected MSME financing in BUS and UUS. In BUS, number of offices, number of employee and policy rate impact the MSME financing. Meanwhile in UUS, NPF, third party fund and policy rate are the factors affected MSME financing.
2. This research suggest that BUS more careful in managing their human resources. Because this research shows that the higher the number of employees has implications for the decrease in financing funds.

## **KESIMPULAN**

Realizing the importance of MSME and sharia bank in Indonesia economy, we try to explore the determinant factors of MSME Financing by sharia banks in Indonesia both sharia commercial banks (BUS) and sharia business unit (UUS). These determinant factors are including external and internal factors such as Return On Assets (ROA), Non Performing Financing (NPF), third party funds (DPK), number of offices, number of employee or workers, and policy rate determined by central bank of Indonesia (BI). From the result analysis we can conclude there are differences between BUS and UUS in determinat factors of MSME Financing aspects. For BUS, number of offices, number of employee and policy rate by BI effect the MSME financing decision. For number of officess and policy rate by BI, both factors are in accordance with the initial hypothesis which are positively and negatively affected the MSME financing. Meanwhile for number of employee variable, this research show a different conclusion with initial hypothesis and suggest that BUS more careful in managing their human resources

For sharia business unit (UUS), Non Performing Financing (NPF), third party funds (DPK) and central bank policy rate are the independent factors affected MSME financing. Consecutively these independent variables, negatively, positively and negatively affected MSME financing funds. These conclusion in accordance with the initial hypothesis.

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